[COMMITTEE PRINT]

FINE

FINANCIAL INSTITUTIONS AND THE NATION'S ECONOMY

COMPENDIUM OF PAPERS PREPARED FOR THE FINE STUDY

COMMITTEE ON BANKING, CURRENCY AND HOUSING
HOUSE OF REPRESENTATIVES

94th Congress, Second Session

BOOK II

PART 3—STRUCTURE AND OPERATIONS OF THE FEDERAL RESERVE SYSTEM

PART 4—INTERNATIONAL BANKING

JUNE 1976

Printed for the use of the Committee on Banking, Currency and Housing

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PREFACE

The House Banking, Currency and Housing Committee together with the Subcommittee on Financial Institutions Supervision, Regulation and Insurance announced on April 24, 1975 the undertaking of a major review of the nation's financial institutions and their regulation by the Federal Government. A project was launched, called the Financial Institutions in the Nation's Economy (FINE) Study, encompassing five areas: The relationship between banks and thrift institutions, and what changes may be desirable in their borrowing, lending, investment and customer service activities; the adequacy of federal regulation, as now divided among three government agencies for banks alone; the structure and operations of the Federal Reserve System; the operation of U.S. banks abroad, of foreign banks in the U.S., and of the Eurodollar market; and the operation of bank holding companies.

A team of consultants and Committee staff, under the supervision of Dr. James L. Pierce, principal consultant to the Committee on the FINE Study, began an analysis of the major issues affecting our financial institutions. Working with staff and expert consultants, the Committee published in November 1975 a set of *Discussion Principles* which contained proposals for the restructuring of our financial institutions. Extensive hearings followed and ultimately legislation was proposed.

As a first step in this process, the Committee commissioned for FINE a number of studies that were conducted by respected scholars who had published extensively and had experience in advising the government on policy matters in their respective fields. These studies provided an independent perspective on financial reform. The papers present a focused evaluation of important issues which touch on the many facets of financial reform and are the result of careful study by individuals who have thought deeply in their chosen area.

The papers contained in this volume represent all of the studies that have been commissioned for the FINE Study. Four studies that were completed and in publishable form before the hearings began were published in a November 1975 volume. The present volume contains those four studies as well as new ones relating to international banking, bank holding companies, credit unions and additional papers on regulatory reform.

Besides the studies, an extensive and detailed questionnaire dealing with the current practices and attitudes of the Federal banking regulatory agencies was prepared by the FINE Study Staff and several consultants. This questionnaire was published in the earlier volume; in the present volume the questionnaire is reprinted as well as the replies from the Federal Reserve Board and the Comptroller of the Currency.

HENRY S. REUSS,
Chairman, Committee on Banking, Currency and Housing.

FERNAND J. ST GERMAIN,
Chairman, Subcommittee on Financial Institutions Supervision, Regulation and Insurance.

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PART 3

STRUCTURE AND OPERATIONS OF THE FEDERAL RESERVE SYSTEM

THE STRUCTURE AND OPERATION OF THE FEDERAL RESERVE SYSTEM: SOME NEEDED REFORMS

(By Thomas Mayer) [1]

Introduction and Summary

This study evaluates the Federal Reserve's structure and presents a number of proposals for making it more consistent with its present functions. Two main beliefs underlie these proposed reforms. One is that to isolate the Federal Reserve from partisan political pressures it needs a substantial degree of independence. However, this independence should not extend to allowing it to select its own goals independently of those preferred by elected officials. Second, the Federal Reserve's independence does not require it to have, as it does at present, a quasi-private component. It carries out extremely important governmental functions, and should be fully a public agency, rather than considering itself as only quasi-public. Hence, the following changes are recommended:

1. The Federal Open Market Committee should meet with the President once every two years (and more frequently if very special circumstances require this) to obtain an indication of his goals. It should then be required to accept these goals as its own unless it appeals successfully to Congress.
2. The stock in the Federal Reserve Banks which is presently owned by member banks should be retired.
3. The Board of Directors of the Federal Reserve Banks should be transformed into a management and economic advisory council.
4. The presidents of the Federal Reserve Banks should increase their contacts with a broad spectrum of the public, and should consider using a formal advisory council for this purpose.
5. The presidents of the Reserve Banks should be chosen by the President (with the advice and consent of the Senate) from a list of three candidates selected by a bipartisan committee.
6. Instead of having the presidents of the Reserve Banks serve in rotation on the FOMC, they should serve on it permanently but with fractional votes.
7. If recommendation (6) is not adopted, the Federal Reserve should reconsider the appropriateness of having the New York Federal Reserve Bank permanently represented on the Federal Open Market Committee. (And also the rotation of the Cleveland Bank on the FOMC.)
8. The Board of Governors should be cut to five members *if* its supervisory work is reduced.

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[1] Professor of Economics, University of California, Davis. A paper prepared for the FINE Study. The author is indebted for much helpful information to Governor Holland, Chairman Wilson President Balles and Senior Vice President Sims of the San Francisco Federal Reserve Bank, President Eastburn of the Philadelphia Federal Reserve Bank, Professors Sherman Maisel, William Poole and Larry Wade, and Dr. James Pierce, none of whom are, of course, responsible for any statements made here. He is also indebted for able research assistance to Mr. Robert Carter.

9. The terms of the governors should be changed so that they expire in March of odd numbered years. If a governor does not serve out his full term his successor should be appointed only to the unexpired part of that term. And if recommendation (1) is not accepted, then the terms of the governors should be cut to ten years.

10. Various steps should be undertaken to raise the prestige and influence of the other governors relative to the chairman's.

11. The Chairman's (and the vice-chairman's) term should be made coterminous with the President's.

12. The President should have the power to appoint, on his own, subject to Senate confirmation, someone as governor and chairman. But for the appointment of other governors he should be required to choose someone from a list of three candiates selected by a bipartisan committee. The present requirements for occupational and regional representation should be abolished.

13. The Board of Governors should consider the appointment of an advisory council with broad public representation.

14. If a new bank regulatory agency, with adequate safeguards against capture by the industry, is instituted, then the Federal Reserve should yield its bank regulatory and supervisory functions to it. If such an agency is not set up, then the Board of Governors should decentralize much of its regulatory and supervisory work to the Reserve Banks.

15. If uniform reserve requirements are imposed on banks, then the Federal Reserve should charge banks for check clearing.

16. Congress should commission a management consulting firm to evaluate the Federal Reserve's policies regarding officers and employees. Until the results of such a study are available, the issue of an audit by the General Accounting Office should be shelved.

17. The Federal Reserve should be required to file with Congress an *Annual Report on Monetary Policy*, setting out its forecasts, its targets and its trade-offs. *Hearings* should be held on this report.

18. The Federal Reserve should consider cutting the five year lag in the publication of the FOMC Minutes and making them more comprehensive.

19. Except in particular cases the *Record of Policy Actions* should be published right away.

20. Certain specified steps should be taken to raise the efficiency of Congress' oversight over the Federal Reserve.

The Federal Reserve was established in 1913 primarily as a cooperative enterprise among banks, as a banker's bank, rather than as a central bank in the modern sense of the term. In accordance with prevailing ideas the Federal Reserve was to prevent excessive and speculative booms, and to control the *quality* of credit. This orientation determined the Federal Reserve's structure. Since it was a banker's bank, it could, in large part, be placed in the hands of banks. To be sure, some government supervision was needed to prevent it from becoming a banking cartel, but it was certainly not thought of as an institution by which the government tries to control money income.[2] Hence, central-

[2] As Harold Stein put it: "The central bankers of the nineteenth century would have shuddered at the thought that they were responsible for carrying out the objectives of the Employment Act of 1946." U.S. Congr. Joint Economic Committee, Subcommittee on General Credit Control and Debt Managment, *Monetary Policy and the Public Debt, Hearings,* 82nd Congr. 2nd sess., 1952, p. 759.

ized direction could be limited; most of the power could be held by 12 regional Banks which would monitor the quality of loans made by the banks in their Districts and extend credit to them. This task could be fulfilled best by bankers if their natural tendency to favor high interest rates where checked by having borrowers, as well as the general public, represented on the Federal Reserve Bank's Board of Directors.

But since 1913 the functions of the Federal Reserve have changed radically. It is no longer primarily a banking agency, rather it is an "economic stabilization agency" concerned with the standard macroeconomic goals such as full employment. It is therefore unfortunate that the term "Federal Reserve Banks" makes many people think of the Federal Reserve as akin to a commercial bank. It is *not* a bank.

Despite this radical change in the Federal Reserve's functions, its structure has changed much less. To be sure, there has occurred a slow, but steady, accretion of power to the Federal Reserve Board at the expense of the Federal Reserve Banks. In addition, the Banking Act of 1935 provided legislative recognition for the centralization of open market operations. But at the same time, this Act was also, in another way, a major move towards the decentralization of macroeconomic policy since it removed the Secretary of the Treasury and the Comptroller of the Currency from the Federal Reserve Board, and lengthened the terms of its members from ten to fourteen years. Hence, while the importance of the private component of the Federal Reserve has shrunk since 1913, its formal independence from the Administration has grown. This is a surprising change because Federal Reserve policy is now, unlike in 1913, conceived of as a central component of the government's economic policy. Here is a case where form has *not* followed function.

The fact that the Federal Reserve's structure has changed much less than its functions does not necessarily mean that it is outdated, and should be changed. It *may* be the case that its structure—particularly its independence—is even more fitting to its present functions than to its 1913 functions. Furthermore, apparently outmoded structures sometimes perform efficiently, and by their very age, provide the institution with legitimacy.[3] But at the very least, the discrepancy between the changes in the structure and in its functions suggest that the Federal Reserve's structure should be reevaluated.

This paper will therefore deal with the problem of whether, and if so how, the Federal Reserve should be reorganized. Its focus is on the issue of the Federal Reserve's independence and on its responsiveness to national economic policy as enunciated by Congress and the Administration. Is the Federal Reserve's independence merely a holdover from the time when the government took little responsibility for economic conditions, or is it something that is even more necessary now than in the days when the central bank was thought of as strictly a "banking" institution? And insofar as the traditional structure of the Federal Reserve inhibits its efficient operation as a governmental agency, how should it be changed? This paper therefore first looks at the question of Federal Reserve independence, and then turns to the various components of the system. It then deals with the problem of

[3] Cf. Kenneth Boulding, "The Legitimacy of Central Banks" in Board of Governors, Federal Reserve System, *Reappraisal of the Federal Reserve Discount Mechanism* (Washington, D.C., 1971), vol. 2, pp. 3–13.

whether the Federal Reserve should supervise banks, and discusses some other characteristics of the Federal Reserve such as its financial structure. It concludes with some recommendations for more effective Congressional oversight. The guiding principle of the paper is that since the Federal Reserve carries out governmental functions, it should be a governmental institution, and not a quasi-public, quasi-private one, which is the way the Fed's officials frequently refer to it. Having an institution organized as partially public and partially private is justified if this institution carries out functions some of which are private. For example, a scientific organization that, in addition to the services it renders to its members, also serves as a statutory adviser to the government can be considered quasi-private and quasi-public. But this is not so for the Federal Reserve. Its major functions are governmental. Any notion that it exists in part to carry out private functions is an anachronistic residual from the days when it was thought of as a banker's bank. Hence, this paper recommends a number of changes in the Federal Reserve's structure to turn it fully into a governmental institution.

Independence: Form Versus Substance

In a formal sense the Federal Reserve is entirely independent; there are no *official* channels by which the President can enforce his will upon it, and it is not subject to Congressional pressure through the appropriations process. To be sure, Congress could at any time order the Federal Reserve to take certain actions, but Congress has shown a great reluctance to do so. However, in March 1975 in Concurrent Resolution 133 Congress did assert its right to tell the Fed what monetary policy it should follow, and to require the Fed to explain its policy targets and justify its actions. While it is frequently asserted that the Federal Reserve is a "creature of Congress" the same is true for other government agencies too. In actuality Congress exercises less control over the Federal Reserve's actions than, say, over the Treasury's actions.[4]

But the Federal Reserve's de facto independence is severely limited for four reasons. First, it is precarious in the sense that Congress could at any time abolish it. And since there is some support for this in Congress it is in a sense, "a prisoner of its freedom." While it can act independently, it must be careful not to alienate a body of public opinion strong enough to take this independence away. It must treat its ability to act contrary to the wishes of the Administration and Congress as a scarce good which has to be economized.[5] Second, it frequently asks Congress for certain legislative changes, and to obtain these—as well as to block legislation it opposes—it has to cultivate Congressional goodwill. And, it also has to seek the support of the Administration in these legislative struggles.

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[4] See Harold Stein, *op. cit.*, p. 759.

[5] According to Governor Mitchell, "The measure of independence that the System has retained over the years reflects its sparing use of dissent, and the care and skill with which the Systems' views have been negotiated. . . ." (U.S. Congr. Joint Economic Committee, *Recent Federal Reserve Action and Economic Policy Coordination, Hearings*, 89th Congr., 1st sess., 1966, p. 24. At the same Hearing Governor Maisel testified: "Our independence and right to act should be used primarily as a valuable ace in the hole. An unnecessary use of power may dangerously weaken the System." (*Ibid.*, p. 28.)

Third, the President's power to reappoint, or not to reappoint, the Chairman (and those members who have completed their predecessor's unexpired terms) presumably gives him influence, as does his ability to fill vacancies that occur on the Board of Governors. And the Chairman's wish to screen potential appointees to the Board gives the President an additional lever over the Chairman.[6] Fourth, there is the moral suasion which the man elected by the nation as its Chief Executive can exercise over an appointed Board. And Congress too possesses powers of moral suasion. It is therefore not surprising that a former member of the Board has declared: [7]

> Although no legal method exists for the President to issue a directive to the System its independence in fact is not so great that it can use monetary policy as a club or threat to veto Administration actions. In any showdown, no non-representative group such as the Fed can or should be allowed to pursue its own goals in opposition to those of elected officials. . . . The White House holds too many cards in any direct showdown.

And the Hoover Commission has stated: "Ultimately, it is the Chief Executive, who, within the limits imposed by Congress, establishes the Government's monetary-fiscal policy. . . ." [8]

But the fact that the Administration may get its way "ultimately" does not mean it can always do so, and certainly not right away. At times—though perhaps not always—it is true that as a Congressional Staff Report has said: "Unless the administration is willing to force a showdown it cannot change Federal Reserve policy." [9] And putting pressure on the Fed may be costly to the Administration. Once when the White House released a statement which criticized Chairman Burns, and suggested that the Federal Reserve be reorganized, the stock market declined and the dollar was put under heavy pressure in the foreign exchange market.[10]

Hence, we have experienced a number of incidents when the Federal Reserve adopted policies opposed by the Administration. The most obvious one was the Fed's termination of the bond pegging policy in 1951. Another example occurred in 1956 when the Federal Reserve raised the discount rate despite the declared opposition of the Administration, in what former Governor Maisel refered to as blowing the whistle on the Administration.[11] A third example is the policy that led to the 1966 "crunch," which was strongly opposed by the Administration. It cannot, of course, be inferred from these cases that whenever the Federal Reserve differs strongly with the Administration it feels free to adopt a policy contrary to the Administration's. There may well have been other cases where the Federal Reserve very much wanted to do something the Administration opposed, and decided for this reason not to do it.

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[6] See Edward Kane, New Congressional Restraints and Federal Reserve Independence," *Challenge*, November-December 1975, p. 38.

[7] Sherman Maisel, *Managing the Dollar* (New York, 1973), pp. 136 & 147.

[8] Commission on the Organization of the Executive Branch of the Government *Task Force Report on Regulatory Commissions* (Washington, D.C., 1949), p. 110.

[9] U.S. Congr. House, Committee on Banking, Currency and Housing. Subcomittee on Domestic Finance *The Federal Reserve After Fifty Years, Proposals for the Improvement of the Federal Reserve. . . .*, 88th Congr. 2nd sess., 1964, p. 22.

[10] Sherman Maisel, *Managing the Dollar, op. cit.*, p. 147.

[11] *Ibid.*, p. 73.

The impression given may seem unclear. And this is as it should be, since it is *not* clear just how independent the Federal Reserve is in actuality. It is an issue on which opinions differ, being a matter of intuition rather than of demonstrable evidence. Furthermore, the Fed's independence is likely to vary from time to time depending on whether public opinion supports the Administration or the Federal Reserve.[12] Hence, there are no hard and fast limits to this independence; rather the relationship between the Federal Reserve and other government agencies is "delicate." [13] Most of the time the Administration and the Federal Reserve are more or less in agreement. It is only when they disagree that one obtains some idea of the extent to which the Federal Reserve is actually independent.

Compared to foreign central banks, the Federal Reserve enjoys substantial independence. This is due, in part to the American preference for decentralizing power, and more specifically to the separation of executive and legislative powers. In a parliamentary system the central bank can go along with "the government," without facing the complication of deciding who "the government" is. This is not the case in the U.S. when Congress and the Administration disagree.[14] Hence, foreign experience does not help us in deciding how independent the Federal Reserve should be. Let us look therefore at the case for, and then at the case against, independence.

The Case for Independence

Before starting on the case for independence it is useful to clear away three confusions which sometimes confound this case. One is a tendency to identify the Fed's independence with it having a private, or quasi-private, component. Indeed, this component is usually justified by saying that the central bank should be independent. But this argument is invalid. An institution can be entirely governmental, and yet enjoy substantial independence from the rest of the government, as, for example, the courts do. On the other hand, an institution can be privately owned and be subject to government control, as is true for example of the airlines. Hence, the Federal Reserve's quasi-private components can be jettisoned without necessarily reducing its independence. One might, of course, argue that the quasi-private component is necessary to justify independence to the general public. But this argument is spurious. As a large body of Congressional criticism shows the Fed's independence is vulnerable to criticism precisely *because* it has a quasi-private component, and hence seems to involve the delegation of public decisions and power to a quasi-private institution.

Second, one should avoid confusing the two uses of the term "political." It is sometimes used in the sense of "partisan politics," and at other times to mean any decision made by the electorial, or rather the representative, process, as opposed to decisions made by the market. Third, there is the confusion between Federal Reserve independence

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[12] For example, in 1951, the Federal Reserve could defy the Treasury and withdraw its peg of government securities because it had substantial support in Congress and in the country at large.

[13] Maisel, *op. cit.*, p. 134.

[14] See Jacob Viner in U.S. Congr., Joint Economic Committee, Subcommittee on General Credit Controls and Debt Management, *op. cit.*, p. 774.

in the sense of allowing it to choose its own social goals and the trade-offs between them, and Federal Reserve autonomy in the means it employs to reach these goals. For example, one could order the Federal Reserve to give priority to the employment goal without dictating the means to be used, e.g. raising the growth rate of the money stock to, say 8 percent.

Although there have recently been some attempts in Congress to legislate a minimum growth rate for the money stock, and a lowering of interest rates, most of the debates about Federal Reserve independence have dealt, not with such specifics of monetary policy, but with the Federal Reserve's autonomy to choose its own goals. There are few legislative restrictions on this freedom. To be sure, in a formal sense, the Federal Reserve is bound by the Employment Act of 1946, but this Act has been read to mandate a price stability goal as well as high employment.[15] In addition, the Federal Reserve believes that it also has a mandate to concern itself with balance of payments problems. And an agency that has several mandates—mandates which frequently conflict—has in effect *no* mandates. It is free to choose the one that corresponds to its own preferences.

Giving the Federal Reserve the right to select its own goals rather than taking these from the duly elected representatives of the public can be defended in several ways. One is to say that effective monetary policy requires the Federal Reserve to adopt at times painful—and hence unpopular—measures. These unpopular measures have a long run beneficial effect, which eventually becomes visible, and hence acceptable, to the public. But in the short run the public is unlikely to exercise the required self-discipline of imposing these tough measures on itself through the political process. Hence, by giving independence to its central bank the public insures its long-run well-being. There are, however, three troubles with this argument. First, it is merely an assertion. Is there really any evidence that the public is unwilling to suffer temporary losses for its long-run good? Proponents of this argument have treated it as though its truth were self-evident, and have not bothered to present empirical evidence for it.[16] Second, it represents a fundamental distrust of the democratic process and of the public's ability to learn. After all, monetary policy is not the only area in which the eventual good requires temporarily painful measures. Why not use the same argument to say that the public, and its elected representatives should have no say about defence policy? Third, while the public may be unwilling to bite the bullet, the same may be true of the central bank. For example, many economists have accused the Federal Reserve of being unwilling to allow interest rates to rise, even though this was necessary and inevitable in the long run. More generally, when one looks at the erratic monetary policies actually followed by the Federal Reserve the argument that independence allows the Fed to take the long view seems much less convincing.

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[15] Representative Reuss, for example, has interpreted it as containing a price stability goal. (U.S. Congr. House. Committee on Government Operations, *Amending the Employment Act of 1946 to Include Recommendations on Monetary and Credit Policies and Proposed Wage and Price Increases, Hearings,* 85th Congr. 2nd sess., 1948. p. 3.

[16] It may be no more valid than the frequent assertation that the public does not permit tax increases in an election year. Actually, in the period 1913–1958 most tax increases occured in election years. See the testimony of Professor Carl Shoup in U.S. Congr., Joint Economic Committee, *Review of the Report of the Commission on Money and Credit, Hearings,* 79th Congr. 1st sess., 1961, pp. 190–91.

A related argument asserts that the public is fickle, and given to fads, thus switching irrationally between various policy goals. Federal Reserve independence can then be looked upon as providing an averaging process whose results more truly represent the *long-run* interests and wishes of the public than do its temporary wishes. Like the Supreme Court, the Federal Reserve follows election returns, but does so with a lag. However this argument too, is based on an assertion rather than on empirical evidence. Does the public really switch so rapidly from goal to goal, or do the public's desired trade-offs change only in a longer-run fashion? If the public's preferences do change permanently, rather than only temporarily, then an agency that follows election returns with a lag would not properly represent the public's wishes some of the time.

Perhaps the argument about the fickleness of public opinion should be interpreted somewhat cynically as being a discrete way of saying something else. This is that monetary policy is too technical an issue to be entrusted to public opinion. The public sees only the benefits of monetary ease, and does not know enough about economics to realize that it may result in inflation. It is instructive to compare monetary policy to fiscal policy in this regard. Fiscal policy operates in intuitively clear ways; public expenditures obviously create jobs, and a tax cut obviously raises the public's expenditures. But an increase in bank reserves, or a decrease in the Federal Funds rate operate in more indirect and mysterious ways. The public's understanding of monetary policy is therefore relatively limited. But is it really any less than its understanding of, say, foreign policy? Democracy is based on the assumption that the public can, with the help of expert advice, make difficult, as well as easy, decisions.

A third justification is more basic. It asserts that democracy is not our supreme value, that equity is more important. It further asserts that inflation is highly inequitable, and *must* therefore be avoided. And it claims that the public, or its elected representatives, have a strong inflationary bias. Consequently, we need a central bank which will resist the preference for inflation shown by the public or by its representatives, even though this is contrary to the democratic process. While this argument which puts price stability ahead of democracy may have been acceptable to nineteenth century central bankers, it is contrary to the twentieth century American ethos. Furthermore, it looks upon the Federal Reserve as run by philosopher-kings rather than as run by fallible men who are concerned not only with equity, but also with their private bureaucratic goals—of which more anon. Besides, has the Federal Reserve really turned out to be such a good watchdog over the dollar's value?

Quite another approach to the defence of Federal Reserve independence is to express skepticism, not about public opinion per se, but rather about its representation through the political process. In other words, monetary policy might be misused as a tool of partisan politics. This approach observes that excessive monetary ease initially has almost always favorable effects; interest rates decline, credit becomes more readily available, and employment and output rise. Although prices may rise somewhat right away, the public is much more aware

that its income and employment are rising. The main unfavorable effects of such a policy in terms of higher inflation rates which occur if the economy is trying to operate above its potential, show up only subsequently. Consequently, it would be possible for a politically controlled central bank to adopt an easy money policy timed so that its popular consequences occur before the election, and its unfavorable effects after the election. The result of this would be inflations shortly after most elections, with a consequent increase in the inflationary bias of the economy.

This is indeed a serious danger with a politically controlled central bank.[17] To be sure, a similar thing might be said also about fiscal policy, and many other policies, but here there are checks and balances. Congress would have to go along with that type of partisan approach.[18] Indeed, the comparison with fiscal policy is apt. One of the standard arguments against giving the President power to modify tax rates on his own is precisely that he might use this power to his political advantage. The same argument applies to giving the President control over monetary policy. This argument, that we need Federal Reserve independence to prevent (or moderate) the partisan use of monetary policy provides a much more effective case for Federal Reserve independence than the arguments previously considered. Indeed, it provides *the* main case for it.

But the danger of partisan politics is not the only valid justification for Federal Reserve independence. Another one, already mentioned, is that in a system of separation of powers it is not at all clear which branch of government should have control over the Federal Reserve, or even whether this control is to reside solely in one branch, or should be split analogously to the split that exists for fiscal policy. And if we do not know which branch of government should have control over the Federal Reserve, the best thing to do may well be to leave it in its present, rather ambiguous, position, where it is subject to influence and pressure from both Congress and the Administration. Threats to its independence from both branches *may* make the Federal Reserve more responsive than it might be if it were under the control—and hence the protection—of either branch.

And another valid argument is that its independence makes the Federal Reserve into an independent voice in the councils of government.[19] This is badly needed.

Thus, to summarize, there are three valid justifications for Federal Reserve independence: (1) keeping monetary policy out of partisan politics, (2) the uncertainty about which branch of government to give control over the Federal Reserve, and (3) the desirability of an inde-

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[17] For a suggestion that this has to some extent occured in recent years see Edward Kane, "The Re-Politicization of the Fed," *Journal of Financial and Quantitative Analysis*, November 1974, p. 751. To be sure, the public would eventually wake up to this trick, but in the meantime a lot of damage could be done. For a general discussion of this problem see William Nordhaus, "The Political Business Cycle", *Review of Economic Studies*, vol. 42, April 1975, pp. 169–90.

[18] See the testimony of William Kelly in U.S. Congr. House. Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve System After 50 Years, Hearings*, 88th Congr. 2nd sess., 1964, p. 1908.

[19] See Sherman Maisel, *op. cit.*, p. 135; H. S. Gordon, "The Bank of Canada in a System of Responsible Government," *Canadian Journal of Economics and Political Science*, vol. 27, February 1961, pp. 1–22; and G. L. Bach, *Federal Reserve Policy-Making* (New York, 1950), pp. 214–215.

pendent voice on monetary issues.[20] Of these, the first one is the most important.

The Case Against Independence

The most obvious argument against Federal Reserve independence is that such independence is undemocratic. We have here a situation where major government decisions, at times the most important ones in the macroeconomic sphere, are made by officials who are neither themselves elected, nor are responsible to elected officials. The public may have firmly repudiated a President at the polls, but his appointees on the Board will continue to make monetary policy for many years. And the Federal Reserve Bank presidents are even further removed than the governors from the electorial process. From this point of view Federal Reserve independence is fundamentally undemocratic. Independence from the electorial process is justified for agencies that have judicial or quasi-judicial functions, but the Federal Reserve is primarily a policy-making agency, and hence should be controlled by elected officials.[21] Furthermore, if the President can be trusted with the authority to wage war why is he denied the authority to make monetary policy? [22] We do not allow appointive officials with long terms in the Defense Department or the State Department to decide whether to go to war. Why do this for monetary policy? As Professor Samuelson has put it: [23]

> There can never be place in American life for a central bank that is like a Supreme Court, or 1831 House of Lords—truly independent, dedicated to the public weal but answerable for its decisions and conduct only to its own discretion, and . . . conscience. . . .

Professor Strotz well summed up the situation when he said that "democratic values . . . place a burden of proof upon those who advocate an independent central bank." [24]

Defenders of Federal Reserve independence have answered this argument by saying that there is nothing undemocratic in delegating responsibilities to an agency. In one way this argument is, of course, entirely valid. It is certainly true that the delegation of monetary powers to the Federal Reserve has been accomplished in a democratic manner by the Federal Reserve Act. The problem is that this delegation of power, though itself democratically accomplished, *does* reduce the autonomy of the public with respect to monetary policy. What Federal Reserve independence clearly does is to reduce the responsiveness of monetary policy to the public's wishes. Whether or not one wants to call this reduction in responsiveness "undemocratic" or a

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[20] Two other justifications are sometimes given. One is that the Federal Reserve does not have a well defined clientel, possessing neither a powerful grass roots constituency as, for example, the Department of Commerce does, nor does it have, like the Defense Department, a constituency of those who sell to it. Second, it has been argued by the Commission on Money and Credit (*Money and Credit*, Englewood Cliffs, N.J., 1961, p. 86) that independence allows the Federal Reserve to attract a better staff and be a more vigorous agency. But it is not clear why its staff should be concerned about the Fed's independence.

[21] Thus Representative Reuss once asked a witness who supported Federal Reserve independence whether he also favored independence under a Board of Governors for the Treasury. U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance. *The Federal Reserve After Fifty Years, Hearings, op. cit.*, p. 1707.

[22] It may seem that this argument is weak since certain war powers are given to the President rather than to Congress because of the need for speedy decisions. But this answer would be effective only if the choice were between giving control over monetary policy to the President or to Congress, rather than to an independent agency.

[23] *Ibid.*, p. 1105.

[24] *Ibid.*, p. 1451.

"wise act of abnegation" is, to some extent, a debate about words. But if we call any democratically arrived at delegation of power democratic we would have to call democratic a system whereby a dictator is freely elected to wield absolute power for life.

Since delegation with respect to means is in any case likely, the problem of Federal Reserve independence is primarily one of the delegation of value judgments. To the extent that the Federal Reserve makes the same value judgments as the public, either because the public's value judgments correspond to its own inherent ones, or because it believes that it has the duty to accept the public's value judgments, Federal Reserve independence does not raise many issues.

But there is a serious question whether this is the case. Traditionally, central banks have been substantially more concerned with inflation, and less concerned about unemployment, than the public. Central banks look upon themselves as the guardians of the value of money. This is due, in part, to the fact that one of the central bank's constituencies, bankers, are strongly opposed to inflation. In case of the Federal Reserve it may also result from the Federal Reserve seeing itself as the only major government agency that protects the interests of the fixed income groups, most government agencies having a producer, rather than consumer, constituency. As former Governor Maisel has put it: "It seems evident that some officials in the System and some of its supporters saw the Fed's role as one of a counterweight to any government tendency to seek economic goals with which the Fed disagreed." [25] In recent years with the appointment of economists to the Board and to the presidencies of the Federal Reserve Banks, this tendency to focus on price level stability, rather than on employment, has probably decreased. Thus according to Maisel "a good deal of the System bias has been removed," [26] though there is always a danger of it returning, since the Federal Reserve talks more frequently with those who favor restrictive policies than to other groups. In his view, while the Federal Reserve was more conservative than other agencies prior to 1961, this is no longer the case.[27] But in a book published in 1971 Professor G. L. Bach refers to the Federal Reserve as more concerned with inflation than are the Administration or Congress, though he too suggests that the difference is not very great.[28] But in his recent speeches Chairman Burns has again been putting great emphasis on the need to fight inflation.

This whole topic of the Federal Reserve's attitude towards inflation, compared to that of other government agencies, is greatly complicated by the fact that, as discussed below, the Federal Reserve has been unwilling to discuss its trade-offs in a serious way. Hence, outsiders can only form rather unreliable impressions which may well be wrong.[29]

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[25] Maisel, *op. cit.*, p. 133. See also G. L. Bach, *Making Monetary and Fiscal Policy* (Washington, D.C., 1971), p. 165.
[26] *Op. cit.*, p. 166.
[27] *Ibid.*, p. 165.
[28] *Making Monetary and Fiscal Policy*, *op. cit.*, p. 165.
[29] Some attempts have been made to estimate the Federal Reserve's trade-offs statistically. One of these has concluded that the Fed has become less hostile to inflation after Arthur Burns succeeded William McChesney Martin as chairman. (See Thomas Havrilesky, Robert Sapp and Robert Schweizer, "Tests of the Federal Reserve's Reaction to the State of the Economy: 1964–74." *Social Science Quarterly*, March 1975, pp. 835–52.) But such studies are vulnerable to the criticism that changes in the variables used, or in the way they are measured, might result in different conclusions.

But emphasis on price stability is not the only way in which the Federal Reserve's value judgments may depart from those of the public. A bureaucracy, like any other closely knit group, tends to develop its conceptions into unquestioned dogma—"professionalism also means inbreeding and the growth of dogmas. . . ." [30] And the Federal Reserve has not been immune from this weakness. To be sure, the Federal Reserve is to be *strongly* commended for giving its staff much more intellectual freedom than is usual for government agencies. But all the same, it has tended to develop a certain inbred way of looking at things. As Professor Yohe has put it: "Anyone who has ever worked with Federal Reserve publications or personnel has doubtless sensed a certain conformity of thought and opinion and a defensiveness of System policy," [31] though the Fed may well be much better this way than other government agencies. Similarly, Professor Friedman referred to the reluctance of an independent agency, such as the Federal Reserve, to admit that it has made a mistake.[32] Our economy is one of checks and balances. Private firms, when they make mistakes, are checked by the market and forced to change. Public opinion and elections can force Congress and the Administration to change their policies. But there is no outside agency that forces the Fed to admit its mistakes. It can indulge in the comfortable attitude of not admitting these mistakes even to itself. Hence, it fails to learn from its errors, and continues to make the same ones in the future.[33]

Furthermore, since the Federal Reserve's day-to-day contacts are primarily with the money market, and with the banks it supervises, it may develop money market myopia, that is, an inclination to adopt policies that facilitate the smooth workings of the money market, even if these policies have a significant cost in terms of overall economic stability. The Federal Reserve has been subject to a great deal of criticism on this score by academic economists who have made a strong case that this is what actually occurs.[34]

And this is not a minor issue. The Federal Reserve has a choice of *either* stabilizing the money stock *or* stabilizing interest rates in the short run. This is a *very* important issue for stabilization policy, but one outside the purview of this paper. However, what is relevant here is that independence increases the Federal Reserve's ability to indulge in a bias to stabilize interest rates, if it does have such a bias, as many economists believe is the case. Such a bias, against short term fluctuations in interest rates could be the result of the Fed's close relations with big banks and other money market operatives who can suffer serious losses from interest rate instability, and have a strong preference for policies that smooth out money market fluctuations.

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[30] Harvey Mansfield and Myron Hale, "The Structure of the Federal Reserve System," reprinted in U.S. Congr. House, Committee on Currency, Banking and Housing, Subcommitee on Domestic Finance, *Hearings, op. cit.*, p. 1980.

[31] "The Open Market Committee Decision Process and the 1964 Patman Hearings," *National Banking Review*, vol. 2, March 1965, p. 360.

[32] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, pp. 1143–44.

[33] There are, of course, *some* pressures on it. One is the previously discussed threats to its independence if it uses it in ways disapproved of by Congress or the Administration, another is the need to justify itself at Congressional Hearings, a third is criticism from academic economists, and a fourth is criticism from its staff, which in recent years has become much more professional and less bureaucratically oriented.

[34] For the classic criticism see Karl Brunner and Allen Meltzer, *Some General Features of the Federal Reserve Approach to Policy*, U.S. Congr. House, Committee on Banking, Currency and Housing, 88th Congr. 2nd sess., 1964.

If this is the case, it may be by far the greatest loss from Federal Reserve independence. While the goals of the Federal Reserve and of the Administration do not differ so very much, the choice of the interest rate, or of the money stock, as the target for monetary policy can easily decide whether monetary policy is stabilizing—or destabilizing—the economy. Obviously the difficult and vital decision about what target variable to use should be based on the best economic analysis available, and not be influenced by such bureaucratic factors as the Federal Reserve's close relations with the money market, or by the fact that the Federal Reserve Banks superficially resemble commercial banks. Outside control over the Federal Reserve might therefore be *immensely* useful if it reduces money market myopia, and generally, limits the extent to which a "banking outlook" interferes with effective policy.[35] Similarly, reducing the Board of Governors' bank regulatory functions, and hence its contacts with banks, may help here too.

Another part of the case against Federal Reserve independence is that the public holds the President, and not the Fed, responsible for the state of the economy.[36] And yet, at least on a formal level, he is not given control over what may well be the most powerful tool of general economic policy. The import of this argument is, however, limited by two considerations. One is that, as discussed above, informally the President does exercise not inconsiderable control over the Federal Reserve. And second, monetary policy is not unique in this way. The President's power over fiscal policy is also limited. However, with regard to fiscal policy the President can at least run against Congress, while if he were to run against the Federal Reserve—and do so successfully—it would probably be the end of Federal Reserve independence.

Critics of Federal Reserve independence have also objected to it on the ground that it inhibits the coordination of various stabilization tools.[37] Monetary policy is placed under the control of one agency, while fiscal policy and debt management are controlled by other agencies. Hence, it is difficult to get these tools used in a consistent manner, and to allocate the overall stabilization task efficiently between them. For example, as Professor Samuelson has pointed out, if we have an independent central bank that places more emphasis on price stability than the fiscal authorities do, the resulting restrictive monetary, and easy fiscal policies will work to reduce the saving rate of the economy.[38]

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[35] See Harry G. Johnson, "Alternative Guiding Principles for the Use of Monetary Policy," *Essays in International Finance* #44 (Princeton, N.J., 1963), pp. 6–7. Professor Friedman ("Should There be an Independent Monetary Authority?" in Leland Yeager, *In Search of a Monetary Constitution* (Cambridge, Mass., 1962), p. 238) argues that the close connection between central bankers and commercial bankers contributes to the Federal Reserve's confusion of money and credit.

[36] Thus the 1952 Council of Economic Advisers argued:

> The President could scarcely discharge his general constitutional responsibilities . . . if monetary policy were not regarded as one of the "functions and resources" of the Government. . . . Monetary policy does come under the responsibility of the President. . . .

(U.S. Congr. Joint Economic Committee, Subcommittee on General Credit Control and Debt Management, *Replies to Questions* . . . . 82nd Congr. 2nd sess., 1952, pp. 849–50.)

A political scientist who is a specialist on Federal Reserve organization, Michael Reagan, has taken a similar position ("The Political Structure of the Federal Reserve System," *American Political Science Review*, vol. 55, March 1961, p. 73).

[37] See for example, the testimonies of Professors Villard and Johnson in U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, pp. 1035–36.

[38] *Ibid.*, p. 1125.

To be sure, there are meetings between Federal Reserve and Treasury officials, but there is no formal mechanism for settling their unresolved disputes. Furthermore, in his meetings with the Administration the Federal Reserve Chairman is limited in the extent to which he can commit the Federal Reserve System. Hence the Commission on Money and Credit stated that there is a need for "closer working relationships and greater unity of purpose and outlook." [39] A proposal for increasing coordination is made below in connection with the issue of Federal Reserve secrecy.

But, one should be wary of the term "coordination." It is sometimes a cover for saying that the Federal Reserve should be subservient to the Administration, rather than that the two should coordinate in the sense of a mutual agreement between two equals.

In addition, despite its obvious advantages, one could question whether the coordination of monetary and fiscal policy is really desirable. Suppose that the situation is so unclear that the Administration and the Federal Reserve hold contrary views on what policies are called for. Given so much uncertainty it may well be best that nothing is done.

One part of the case for independence is therefore that we really do not know enough about monetary-fiscal policy to use it effectively. Hence, there is safety in numbers. By having two separate agencies whose actions sometimes operate in opposite directions we avoid some of the big policy errors that could result were they both to pull in the same direction.

Besides, we want conflicts between government agencies to be out in the open, rather than hidden from Congress and the general public, so that Congress can, if necessary, adjudicate the issue.[40] An example of the beneficial effects of this are the Douglas Hearings and Patman Hearings in the one really major case where coordination broke down, the events leading to the Accord. This process of bringing controversial issues out into the open would, of couse, work much more effectively if the Federal Reserve were less secretive; if it were willing to discuss its goals and their trade-offs more openly.

Finally, it is worth noting that in any case full coordination between fiscal and monetary policy could not be achieved merely by giving the President authority over monetary policy since he lacks control over fiscal policy.[41]

The case for curbing the Federal Reserve's independence is generally based on the assumption that, at present, the Federal Reserve has too much power. But one can also advocate reducing the Fed's independence for exactly the opposite reason. In this view the Federal Reserve's independence *reduces* the power it would otherwise have because it reduces its influence over the Administration. Not only does it tend to limit the Fed's influence to monetary policy, but also the Administration may be less ready to honor the views—even on monetary policy—of an independent agency, than of an agency that is a family member of the Administration. Thus, a study by Professors Mansfield and Hale declared that bringing the Federal Reserve into the Admin-

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[39] Commission on Money and Credit, *op. cit.*, p. 86.
[40] See William Kelly, *op. cit.*, p. 1914.
[41] See the testimony of Henry Wallich in U.S. Congr. Joint Economic Committee, *Recent Federal Reserve Action and Economic Policy Coordination, Hearings, op. cit.*, p. 320.

istration would give it *more* influence.[42] And Professor G. L. Bach has argued that independence has shut the Federal Reserve off from having influence on the Administration: "Ours is a government by negotiation and compromise." [43] Thus, "the power and influence of the Federal Reserve in overall macroeconomic policymaking has usually been greatest when its distance ('independence') from the administration has been least." [44] More specifically, the Hoover Commission has pointed out that the "semi-isolated legal status" of the Chairman means that he will not be the chief adviser to the President.[45]

This argument that independence reduces the Federal Reserve's influence over the economy is hard to evaluate. To do so one would have to know: (1) the extent to which the Fed is now *really* independent, (2) the extent to which the President would make greater use of Fed advice if it were part of the Administration, (3) the relative importance of monetary policy compared to other policies, such as fiscal policy, over which the Federal Reserve might gain influence by being part of the Administration, and (4) the loss of direct influence over the public that would result from the Federal Reserve no longer being able to act as an independent voice. Moreover, the validity of the argument may depend upon the personality of the chairman. A strong chairman, willing to follow policies opposed by the Administration, is likely to have more impact if he is outside the Administration, while a more accommodating chairman could probably assert more influence if he were part of the Administration. But although the argument is therefore hard to evaluate, it should not be brushed aside; it may very well be of substantial importance.

To summarize, a strong case can be made against Federal Reserve independence on the grounds that it is basically undemocratic (or, to put it differently, it reduces the autonomy of the public), that the Federal Reserve tends to substitute its value judgments—including myopic ones—for the public's, that coordination suffers, and possibly that the Fed would have more influence if it were a part of the Administration. On the other hand, one argument for reducing Federal Reserve independence, the President's responsibility for economic conditions, seems less compelling.

A Compromise Proposal

Thus, both the case for, and the case against, Federal Reserve independence contain valid points. This suggests the advisability of a compromise that would maintain the main advantages of independence, while making the Federal Reserve more responsive to the public will. This could be achieved by having the President lay out the goals

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[42] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, p 1970.

[43] U.S. Congr. Joint Economic Committee, *Monetary Policy and the Public Debt, Hearings, op. cit.*, p. 751.

[44] G. L. Bach, *Making Monetary and Fiscal Policy, op. cit.*, pp. 163–64. Similar opinions have been expressed by Harold Stein and Michael Reagan. See U.S. Congr. Joint Economic Committee, *Monetary Policy and the Public Debt, Hearings, op. cit.*, p. 782; "The Internal Structure of the Federal Reserve: A Political Analysis," in Commission on Money and Credit, (ed.) *Monetary Management* (Englewood Cliffs, N.J., 1963), p 399.

[45] Commission on the Organization of the Executive Branch of the Government, *op. cit.*, p. 110. And the Commission on Money and Credit (*op. cit.*, p. 86) too suggested that closer ties to the President might increase the Fed's influence.

the Federal Reserve should follow with a proviso which, as discussed below, would greatly reduce the danger of the partisan use of monetary policy.

Specifically, shortly after taking office, and again shortly after the mid-term elections, the President should meet with the Federal Open Market Committee (FOMC) to set the goals and trade-offs for monetary policy over the next two years. The Federal Reserve would then be bound to follow these goals with one proviso. If it objects to these goals it can reject them publicly, stating its own alternative policy. Congress would then choose between the two by Joint Resolution, though obviously it could legislate its own alternative. Hence, an appeal to Congress would be risky for the Fed since it might receive a policy directive it likes even less than the President's. But, in any case, the Federal Reserve is not likely to appeal to Congress against the President (particularly right after the President's election) since, after all, it has to live with the Administration, and to seek its support on various legislative issues.

Since, for reasons discussed below, the President would set out the goals of monetary policy normally only once every two years he would have to do so in a flexible and general manner. Instead of simply indicating to the Federal Reserve what his trade-off's between unemployment and inflation are at the present levels of these variables, he would have to clarify how the Fed should react to changes in these variables. For example, he might tell the Federal Reserve that, at present, it should place more emphasis on unemployment than on inflation, but should the inflation rate rise above a certain percentage, or the unemployment rate decline below a certain point, then it should pay more attention to inflation.

He would have to set out his goals for a large number of alternatives, for example, for a high inflation rate accompanied by a high unemployment rate. Similarly, he should discuss how his trade-offs would change if certain institutional changes take place; for example, if we return to fixed exchange rates. He would therefore not so much give the Fed a specific "directive," as an indication of his value judgments. This would reduce the danger of inflexibility. In addition, if a completely new *major* problem should arise, such as the oil embargo, then the President would meet again with the FOMC.[46]

Since what is suggested here is an informal discussion which presents the President's value judgments rather than a formal directive, *some* confidentiality is desirable. This could be obtained by having an informal discussion closed to the public, in which the President could talk relatively freely about his trade-offs.[47] However, a public statement should then be issued which reveals the President's targets (and

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[46] An alternative version of this proposal would have the President give directions to the Federal Reserve, not in terms of general goals, such as the unemployment rate, but in terms of specific targets. e.g. a particular growth rate of the money stock. This would mean that the President, and not the Fed, would determine how best to reach the general goals. Perhaps these technical judgments should be left to the Fed. But, if the Fed turns out to be dogmatic about them, and refuses to learn from its mistakes, then it should lose its power to decide what specific target variables to use. Indeed one of the advantages of having the President set out general goals is that the Fed would no longer be able to rationalize its technical errors by claiming that whatever did happen is just what it was aiming for.

[47] However, even in an informal discussion the President would probably have to avoid the type of statement that makes "good copy," lest a member of the FOMC who strongly disagrees with it decides to "go public."

implicitly his trade-offs) at least to the same extent as is currently the case in the *Economic Report of the President.*

The trouble with most proposals to give the President authority over monetary policy is that the President may use this power to play partisan politics: that he may institute an excessively easy monetary policy just before the election. But the proposal presented here largely avoids this difficulty by specifying that the President is authorized to give instructions to the Federal Reserve only almost two years before an election, except if a really major new problem, such as the oil embargo, suddenly emerges.[48] This makes it almost impossible for him to use monetary policy for partisan purposes, at least in the sense of instituting an excessively easy money policy just before an election.

In general partisan politics can take three forms. One is the use of unsubstantiated charges, a second is the use of governmental powers to punish enemies and reward friends, and the third is the adoption prior to an election of policies that have initially favorable- but ultimately unfavorable-effects. The first two are not a problem with regard to the Federal Reserve, but the third one is. There are only three ways it could be prevented. One would be the development of effective sanctions against anyone who tries to influence monetary policy for partisan advantage. Unfortunately, it is hard to imagine how this could be done. The second way is to give the Federal Reserve almost absolute independence, considerably more independence than it has now. For reasons discussed above, this is undesirable. The third way is to allow the Administration to bring pressure on the Fed, as is the case at present, but to require that these pressures occur at a time when their unfavorable effects are likely to show up before the next election. Our present system of giving the Federal Reserve substantial independence, but allowing the Administration to bring some pressure on it at all times is an inefficient compromise of the problem of how independent the Fed should be.

Admittedly, this proposal does not provide an iron-clad guarantee against *any* partisan influence on monetary policy. Thus, a President might, for example, tell the Federal Reserve to adopt a tight money policy now, but to switch to an expansionary policy when the unemployment rate rises above a certain point, but in the expectation that this would occur just before the election. But given the inaccuracy of economic forecasts such a scheme does not look very promising. There is also the danger that if the Federal Reserve accepts the President's guidance once every two years it may accept his guidance at other times too.[49]

But note that, although the proposal suggested here does not avoid all danger of partisan politics completely, neither does the present system. As discussed above, the President can now inform the Federal Reserve of his wishes, and if necessary bring pressure to bear on it. Under the proposed system the Federal Reserve would have a legislative mandate to stand up to such pressure since the law would state specifically that the President is to issue goals to the Federal Reserve

[48] Perhaps a Joint Resolution should be required to authorize such a special meeting.

[49] For example, the Federal Reserve may decide to be helpful to a President prior to an election in the hope that he would respond by giving it goal directives it likes. But this danger seems remote, because if the Fed would play such a game it would run the risk that the opposing candidate might win, and revenge himself.

only once every two years. Hence, there is little ground for arguing that the proposal would make monetary policy more vulnerable to partisan political pressures. The opposite seems more likely.

It should therefore be acceptable to those who are afraid of political control over monetary policy. What it does is to institutionalize some political control, but, one might hope, at the expense of the moral suasion the President can now bring to bear on the Fed at all times. Professor Friedman has referred to the present system as "pseudo-independence" that is "likely to do more harm than good." [50]

The proposal is, of course, open to the objection that it does not answer one argument made for Federal Reserve Independence, that is the uncertainty as to whether the Federal Reserve should be placed under Congress or into the Administration. But the proposal does very little to reduce the role of Congress. In one way it even increases it, since in the case of open conflict between the Administration and the Federal Reserve, it leaves it up to Congress to adjudicate the dispute. Furthermore, if Congress ever wants to legislate a particular growth rate for the money stock, etc. it could still do so. Admittedly, it could no longer justify this by the argument that the goals of monetary policy are not under democratic control. It might also face an Administration that is more protective over the Fed than is the case now. But in any case, at present Congress does not actually exercise much control over the Federal Reserve. Thus, a Staff Report of the Banking, Currency and Housing Committee stated that Congress now exercises so little control over the Federal Reserve that making it responsible to the President would *increase* Congressional leverage over it.[51]

Turning to another valid justification for Federal Reserve independence, the proposal would leave the Federal Reserve as an independent voice in government; it could still protest against various policies while carrying them out. Admittedly, it does not meet the point that the Federal Reserve has too little influence, precisely because it is not part of the Administration.[52]

Another problem is that the President may well be reluctant to reveal his value judgments and trade-offs to the Federal Reserve. He might prefer the present situation where he can bring informal influence to bear on it, and yet blame it for what goes wrong. But the fact that it would reduce such "game playing" is an advantage, and not a disadvantage of the proposal.

On the positive side what the proposal does is to make the *goals* of monetary policy subject to control by an elected official. It would also eliminate, or greatly reduce, the current anomolous position of FOMC members. On the one hand, they are technicians making professional judgments about such complex and narrow technical issues as the choice between various monetary indicators and the correct monthly

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[50] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After 50 Years, Hearings, op. cit.*, p. 1147.

[51] *Ibid.*, p. 1972.

[52] But it would increase the Federal Reserve's power in one way. As Professor Bach has suggested, if the Federal Reserve had a specific mandate it could stand up better to other government agencies. (U.S. Congr. Joint Economic Committee Subcommittee on General Credit Control and Debt Management, *Hearings, op. cit.*, p. 788.) Moreover, to the extent that the President feels favorably disposed to the Fed because he is the one who sets its goals, he may be more ready to take its advice.

growth rate of the money stock. On the other hand, they set, to a very significant extent, the goals of national economic policy. This latter task should not be left to technicians; "government by experts" is inferior to democracy. Originally, when the Federal Reserve was considered essentially a banker's bank, it was reasonable to assign its operation to "experts," since the problems it dealt with were technical problems that did not seem to involve value judgments. But this is no longer the case. The goals of monetary policy are not indisputable ones, such as the avoidance of bank failures. Rather, they now involve highly controversial trade-offs on which the public should have much more of a say than it does at present. Hence, while technical decisions should be left to the Federal Reserve, its goals should be set from the outside. And, as is discussed further below, they, unlike the Fed's day-to-day operations in the money market, should be made public.

Finally, it should be noted that taking away the Federal Reserve's ability to set its own goals is hardly a radical move. Since the early days of the Federal Reserve System there have been attempts by Congress to impose on it specific goals. For example, the House version of the 1935 Banking Act did contain a price stabilization directive. Furthermore, such a staunch conservative as Professor Milton Friedman has spoken out in favor of Congressional control over monetary policy.[53]

Some Alternative Proposals

It may be useful to look at some other proposals to modify Federal Reserve independence that are made from time to time. A very mild one is to amend the Federal Reserve Act to include a specific reference to the Employment Act.[54] But this does not go far enough. As previously discussed, the Federal Reserve already considers itself bound by the Employment Act, and besides, this Act gives the Fed multiple goals, and hence is not constrictive. But, all the same, since there is virtually no cost to amending the Federal Reserve Act in this way, this may be worth doing—as long as one does not expect much from it.

Another set of proposals would involve the Federal Reserve more closely with the Administration by instituting a statutory coordinating commission on monetary problems.[55] However, our experience with statutory advisory commissions has not been good.[56] Moreover, this proposal is vague. Does it mean that the Presidential appointees on this Commission, and hence at one remove, the President himself, can interfere with day-to-day monetary policy, or would it land up with the Federal Reserve being politically powerful enough to treat this Commission as though it were merely advisory?

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[53] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years. Hearings, op. cit.*, p. 1147. Congressional control over monetary policy is Professor Friedman's second choice. His first preference is for a steady growth rate rule for the money stock.

[54] An interesting question that arises in this connection is whether the Employment Act does not already give the President the right and duty to issue directives to the Federal Reserve.

[55] This was recommended by the Hoover Commission (Commission on Organization of the Executive Branch, *op. cit.*, p. 111).

[56] See the testimony of Harold Stein in U.S. Congr. Joint Economic Committee, Subcommittee on General Credit Control and Debt Management, *Hearings, op. cit.*, p. 760.

A more radical proposal is to require bipartisan representation on the Board of Governors as is the case for regulatory agencies.[57] This proposal has a major attraction. As is discussed below, at present the Chairman has excessive influence over the Board. Bipartisanship on the Board would create a focus of opposition to the Chairman, thus bringing into the open disputes about the goals and means of monetary policy.

But at the same time, a bipartisan Board has some serious disadvantages. If voting crystallizes entirely along party lines, we would, in effect, have a one-party Board, since the majority could get its way completely.[58] This could readily lead to the partisan use of monetary policy.[59] It is, of course, not certain that voting would necessarily crystallize along party lines to a much greater extent than at present. If decisions were made more in the open, the fear of adverse public opinion could serve to inhibit it, though, on the other hand, greater public knowledge of how governors are voting might also increase party pressure on them. Another factor that might reduce party-line voting is the wish of governors to have the swing votes with the power that accompanies swing voters. But there would be a built-in tendency for party-line voting to grow over time. The party whose members on the Board show greater party loyalty would have an advantage, and hence there would be pressure on the members of the other party to show more loyalty too. And the President would be tempted to select the members of his party, not only on the basis of their ability, but also for their party loyalty.

In addition, the proposal has a serious disadvantage even if such extreme partisanship can be avoided. Suppose, for example, that two members of the Board do not vote along party lines, and provide the swing votes. This would mean, in effect, that, as far as decision-making is concerned, we have a two man Board without corresponding advantages of a small Board discussed below.

Some observers have proposed that the Chairman serve at the pleasure of the President, and even that he be a member of the cabinet.[60] Given the power of the Chairman this would mean that the President has a substantial degree of control over the Federal Reserve, and consequently, unlike the proposal presented here, could easily lead to a partisan monetary policy.

It has also been suggested that the Federal Reserve be turned into a branch of the Treasury. This proposal has little to recommend it. Quite apart from the danger of partisan politics, there is little reason why the Secretary of the Treasury who already has widespread responsibilities ranging from debt management to taxation and international finance, should also make monetary policy. Surely, monetary policy is important enough that, if it is to be under the control of the

[57] This proposal was discussed in 1913 and in 1935, but has received little support. (G. L. Bach, *Federal Reserve Policy Making, op. cit.*, p. 120.)

[58] Presumably, the FOMC would be abolished under this proposal, so that the Reserve Bank presidents could not serve as a nonpartisan group.

[59] This problem would be much more serious for the Federal Reserve than it is for the regulatory agencies because monetary policy has much more effect on elections than does the policy of, say, the ICC.

[60] Thus E. A. Goldenweiser has suggested a three man Board with the Chairman serving as a cabinet officer. (*American Monetary Policy*, New York, 1951, p. 301.) Michael Reagan has proposed a single head for the System serving at the President's pleasure ("The Political Structure of the Federal Reserve System," *op. cit.*, pp. 75–76).

Administration, it should have its own cabinet officer who, of course, would coordinate policy with the Treasury.

A more moderate version of this proposal is to appoint the Secretary of the Treasury to the Board of Governors either as its Chairman, or as an ordinary member. This would partially restore the situation prior to the Banking Act of 1935 when both the Secretary of the Treasury and the Comptroller of the Currency served on the Federal Reserve Board. However, this experience was hardly very encouraging; the Secretary of the Treasury did not allocate enough time to his Federal Reserve duties. Admittedly, nowadays this might not happen.[61] Another problem with this proposal is that we do not know how it would work in practice; would the Secretary of the Treasury dominate the Board even if he were not the Chairman? [62] The fact that we do not know the answers to these questions suffices to rule this proposal out, quite apart from the obvious danger that it would make monetary policy subject to partisan politics.

The Fed's Quasi-Private Components

Before leaving the problem of Federal Reserve independence it may be useful to discuss briefly its quasi-private component which is frequently confused with its independence. It is clearly a vestige from the days when the Federal Reserve was thought of as a cooperative enterprise among bankers. It is defended nowadays by the argument that it does no harm, since the private, or semi-private, individuals who serve as Directors or Reserve Bank presidents consider themselves duty-bound to act in accordance with the public interest, and not to act as representatives of private groups. But saying that these persons are devoted to the public interest does not, in and of itself, answer the question. The problem is that everyone sees the public interest in a way conditioned by his own background and experience; a banker will be more apt to think that the national interest requires a profitable banking system, than that it requires high wages for plumbers; and plumbers will naturally think the opposite. Hence banker influence is not eliminated even by full adherence to the injunction to act in the "public interest." The preconceptions and biases which arise from a person's day-to-day contacts and from his background are not changed by formally making him a government official. Thus, a more effective defence of the Fed's quasi-private components is to say that their elimination would not result in any significant changes.

But clearly, what Professor Reagan has called the "quasi-private 'face' of the System" is not "in line with its public responsibilities." [63] And this may confuse not only the naive, but also sophisticated insiders. Thus, in 1947 when New York Federal Reserve Bank President

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[61] However, Treasury Secretary Dillon did testify that he would not have enough time available for the Federal Reserve's business. U.S. Congr. House. Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance. *The Federal Reserve After Fifty Years, Hearings, op. cit.*, p. 1231. In the past, there has also been considerable concern that the Secretary of the Treasury, as the country's biggest debtor, has a low interest rate bias. But this is probably no longer a serious problem.

[62] Chairman Martin stated that the Secretary of the Treasury would not necessarily dominate the Board. (Joint Economic Committee, Subcommittee on General Credit Control and Debt Management. *Hearings, op. cit.*, p. 95.)

[63] Michael Reagan, "The Political Structure of the Federal Reserve System," *op. cit.*, p. 75.

Sproul disagreed with Chairman Eccles, the latter said: "Sproul legitimately reflected the opposition of the bankers of his district." [64] Professor Clifford in discussing this passage stated that this was in keeping with Chairman Eccle's belief that the Board presented the public interest which counterbalances the interests and viewpoint of the private bankers frequently represented by the Federal Reserve Banks.[65] Admittedly, this incident occurred almost thirty years ago, and it is doubtful that a Federal Reserve Chairman would think this way today. But this attitude may not necessarily have disappeared *completely*. For example, in 1960 Chairman Martin testified that some, though not a sizable number, of banks believe that ownership of Federal Reserve stock gives them ownership of the Federal Reserve System.[66] And at the same Hearing another Fed official quoted with approval a passage by former New York Bank President Sproul which said that "the Federal Reserve Banks should function somewhere between private enterprise and the government." [67]

And it should be clear from what has been said above, in connection with independence and value judgments, that any tendency in the System to operate monetary policy from the viewpoint of bankers rather than the general public is highly undesirable and should be eliminated. Furthermore, as is discussed below in connection with stock ownership, the existence of quasi-private components may result in unwarranted opposition to restrictive monetary policies. Hence, this paper makes some suggestions for eliminating the quasi-private component of the System.

It is, of course, true that the elimination of the quasi-private component would not, by itself, suffice to remove completely excessive private influence on the Federal Reserve. As long as senior Federal Reserve officials have close and frequent contact with bankers, banks will have considerable influence on Federal Reserve thinking. But at present this tendency is reinforced by the quasi-private components in the Federal Reserve's structure. Hence, even though it will not solve the whole problem, removal of the private components is justified because it would tend to make Federal Reserve officials more conscious of the public nature of their positions.

Let us now leave the general issues of the independence of the Federal Reserve and its quasi-private components, and turn to the specifics of the Federal Reserve's structure.

The Federal Reserve Banks

The Federal Reserve Banks are primarily the operating arms of the System, but they do have some policy-making functions. What needs discussion here is (1) their ownership, (2) the selection of their directors, (3) the functions of the Reserve Banks, and (4) the status of their presidents.

STOCK OWNERSHIP

The Federal Reserve Banks are corporations, and hence have outstanding stock. This stock is held by the member banks who are re-

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[64] Cited in A. Jerome Clifford, *The Independence of the Federal Reserve System* (Philadelphia, 1965), p. 209.

[65] *Ibid.*, pp. 209–10.

[66] U.S. Congr. House. Committee on Banking, Currency and Housing, Subcommittee No. 3, *Retirement of Federal Reserve Stock, Hearings,* 86th Congr. 2nd sess., 1960, p. 239.

[67] *Ibid.*, p. 77.

quired to buy stock equal to 3 percent of their capital. However, this stock does *not* signify ownership. Ownership consists of the right to manage, and the right to the residual income. Neither of these conditions hold for the Federal Reserve Banks, and consequently the term "ownership" is misleading; at best it can be called a convenient facade.

Federal Reserve officials and bankers have defended private stock ownership mainly in two ways. One is to say that the assured 6 percent dividend which member banks earn on this stock makes it a profitable investment, and hence it is an inducement to Federal Reserve membership. The other defence is to say that private ownership generates certain intangible benefits.

But the yield on Federal Reserve stock is *not* a significant inducement to membership. Earnings on this stock amounts to only a trivial percentage of member bank earnings.[68] Second, the 6 percent rate of return may at one time have seemed high relative to other earning assets, but this is not the case at present.[69] Whether or not a 6 percent yield will look like an attractive yield in the future depends on the behavior of interest rates. In any case, if it is desired to give the member banks the 6 percent earnings the stock could be transformed into deposits bearing that rate as was proposed in a bill by Representative Multer (H.R. 8627, 1960).

Turning to the intangible benefits of stock ownership, Federal Reserve officials have testified that stock ownership has "a real psychological value," and helps to tie banks to the System in the sense of inducing them to feel favorably disposed to the Fed, and to membership in it.[70] Elimination of the stock would be interpreted as a step towards nationalization of the Federal Reserve Banks.[71] Furthermore, stock ownership serves as a *symbol* of Federal Reserve independence.[72] And it also tends to justify the Federal Reserve's financial independence from Congress.[73]

Criticism of stock ownership has taken several forms. One is to say that it has a deleterious effect by giving the Federal Reserve System an undesirable "intellectual tie" to banks, and that it reinforces a "built-in banker bias." [74] It is not at all clear, however, how it does this. The Fed's argument that stock ownership makes banks feel favorably disposed to the Fed is open to the rejoinder that what this amounts to, in large part, is giving the banks stock ownership so that they will support

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[68] In 1974 it amounted to about three quarters of one percent of member bank net income.

[69] For some banks with a slow growth rate, however, the after-tax yield on Federal Reserve stock is high because the dividend on stock bought prior to 1942 is tax exempt. But, in the aggregate only about 15 percent of the capital stock predates 1942. It is sometimes said that the 6 percent dividend should be compared with the earnings rate, not on total bank assets, but on equity capital. This is wrong. It seems to suggest that banks "use their capital" to buy Federal Reserve stock. Actually, they use their general assets; capital is just a book entry on the liability side of the balance sheet whose main purpose is to provide a safety cushion for the FDIC and large depositors.

[70] See William McChesney Martin in U.S. Congr. Joint Economic Committee, *Monetary Policy and the Management of the Public Debt, Replies to Questions* . . . , 82nd Congr.. 2nd sess.. 1952, p. 262; Joint Reply by the Presidents in *ibid.*, pp. 646–7; testimony of Karl Bopp, in U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, p 424.

[71] See the statement of Governors Mills, Robertson and Shepardson in *ibid*, p. 104.

[72] See the testimonies of President Hayes and of William Kelly (of the American Bankers Association), *ibid.*, pp. 534 and 1916.

[73] See A. J. Clifford, *op. cit.*, pp. 369–70 and 390–91.

[74] Staff Report in U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, p. 1969.

the Federal Reserve politically. There is little justification for allowing a government agency to obtain political support in this way.[75]

Another set of criticisms of stock ownership argues that it is confusing to the public and provides an irrational facade with no real significance. For example, former Governor Maisel stated that it "makes no sense," and E. A. Goldenweiser referred to it as "essentially a formality without corresponding powers or obligations." [76] And such a facade can be costly. To the extent that the public takes the facade seriously, it is less willing to accept policies that appear to result in high interest rates. Thus some Congressmen have reported that the seeming ownership of the Federal Reserve by banks causes some of their constituents to believe that the Fed adopts tight money policies to raise the income of banks rather than to stabilize prices.[77] Hence, while stock ownership by member banks may help the Fed to cement relations with its narrow constituency, it hurts it in its relations with the general public. And, given the widespread opposition to restrictive monetary policies, the Federal Reserve should worry more about its relations with the public than with banks.

It is therefore recommended, in accordance with the suggestion of the Commission on Money and Credit, that Federal Reserve stock be retired, and member banks be given simply a certificate of membership.[78]

THE DIRECTORS

The Board of Directors of each Federal Reserve Bank has nine members. Three of these, the Class A directors, are officers of member banks; three others, the Class B directors, are persons engaged in "commerce, agriculture, or some other industrial pursuit." The three remaining ones, the Class C directors, are appointed by the Board of Governors. This arrangement was instituted in 1913 to provide a system of checks and balances. The Class A directors, the bankers, are balanced by the Class B directors who come from borrower groups, while Class C directors serve as "neutrals." Although both borrowers and lenders are on the Board of Directors they are supposed to represent, not the interests of their own groups, but rather, the public interest. And Federal Reserve officials have frequently stressed that these directors do, in fact, act as public servants, and not as representatives of their interest groups.

The selection of the Class A and B directors is complicated. The law stipulates that they be elected by the member banks. But actual practice is different. While Class A and B directors are "elected" in a formal

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[75] With respect to the other intangible arguments of Chairman Martin, is there really any evidence that stock ownership makes banks more willing to cooperate with the Fed? As for nationalization of the Federal Reserve Banks, what is wrong with nationalizing an agency that fulfills governmental functions? As regards stock ownership being a symbol of Federal Reserve independence, this symbol, as discussed below, makes it more difficult for the Federal Reserve to exercise its independence and carry out a restrictive policy. And financial independence of the Fed is justified by the fact that this is genuinely needed to preserve its independence, and not by a spurious reference to private ownership of the stock. As Federal Reserve officials have made clear ownership of the stock does not give banks ownership of the Federal Reserve. Hence, it cannot be used to argue that the Federal Reserve System should be financially independent of Congress since it is privately owned.

[76] Sherman Maisel, *op. cit.*, p. 160; E. A. Goldenweiser, *op. cit.*, p. 294.

[77] See A. J. Clifford, *op. cit.*, p. 374.

[78] Commission on Money and Credit, *op. cit.*, p. 294. This is also suggested by Professor Reagan, "The Political Structure of the Federal Reserve System," *op. cit.*, p. 76.

sense, there is often only one name on the ballot.[79] In many Federal Reserve Districts associations of bankers agree informally who is to be on the ballot, while in at least one Federal Reserve District the Federal Reserve Bank president suggests a name. And it seems that Class B directors are in many cases the choice of the Federal Reserve Bank president. Hence, in many Districts it is not really true that the majority of the directors are chosen in a meaningful way by the member banks. In these Districts it would be more accurate to say that the Federal Reserve Banks. However, in at least one Bank, the directors

The directors, who normally serve for no more than two three-year terms, have both administrative and policy-advisory duties. Their administrative duty is a very important part of their job, at least in some Federal Reserve Banks. However, in at least one Bank, the directors spend most of their time on discussions of monetary policy.[80] They determine (within a range established by the Board of Governors) the salaries of the Bank's top management. Since Federal Reserve Banks are adopting a "management by objectives" system this means that a committee of directors has to undertake an elaborate evaluation of the president's performance. The criteria they use include his efficiency in controlling costs, his effectiveness in public relations activities, and, at least in some cases, also his performance on the FOMC.[81] Directors also pass on the budget, and on the audit, etc. To illustrate the administrative functions of the directors by an example, when one Federal Reserve Bank, on the basis of an outside consultant's report, decided to increase mechanization, and terminate the employment of more than 10 percent of its staff, the directors advised the president on the best way to do this. The business experience, and managerial talent of the directors are useful to the Bank's president.

In addition, the directors also play a policy-advisory role. The Board of Governors encourages the Banks to use their directors for this. Thus directors, while they are not permitted to instruct the president about his FOMC votes, do advise him.[82] In addition, the directors communicate their policy views to the Board of Governors, both in formal joint meetings with the Board of Governors, and informally. The Board of Governors has stated that the directors possess information on emerging business conditions that is important and useful.[83] However, at least one former governor does not share this view, and believes that this information is worthless.[84]

The directors also "establish" the discount rate. But this is now a very limited power, since the Board of Governors not only has to approve any change voted by the directors, but can also order the Banks to change their discount rate within two weeks. Hence, the directors

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[79] Banks are divided into three size groups, and each group "elects" one class A and one class B director. Since there are fewest banks in the largest size group, and most in the smallest size group, it is not a situation of "one bank, one vote."

[80] According to Willis Winn, who served as director and chairman of the Philadelphia Bank, directors spend only roughly 5 percent of their time on administrative tasks. ("The Role of the Director: The Ideal vs. the Real." in David Eastburn (ed.), *Men, Money and Policy* (Philadelphia, n.d.), p. 247.

[81] The Chairman of the Board of Directors, of at least one Federal Reserve Bank, evaluates the FOMC performance of the president by talking to various members of the Board of Governors, as well as to FOMC staff.

[82] Not only are the directors unable to instruct the president, they are not even told what occurs at FOMC meetings until it is in the public record.

[83] Andrew F. Brimmer, "Characteristics of Federal Reserve Bank Directors," *Federal Reserve Bulletin*, vol. 58, June 1972, p. 550.

[84] Sherman Maisel, *op. cit.*, p. 164.

have much more of an advisory, than a policy-making function, as far as the discount rate is concerned.

Another important function of the directors, one not set out in the law, is to generate public support for the Federal Reserve. Directors and former directors defend the Federal Reserve's actions to their communities, and they have occasionally been used for lobbying.[85] This gives the Fed political strength.[86]

The structure of the Board of Directors can be criticized on several grounds. One is that it is clearly outdated. It conceives of the Federal Reserve as essentially a "banking" agency, so that it is important to have both bankers and their customers fairly represented. But since the Federal Reserve is *not* a banking agency, but is the most important agency of macro-economic policy, this is an anachronism. And there is no reason why bankers should elect officials of an economic stabilization agency.

Second, the Board of Directors consists of the top echelons of the American economy, and gives virtually no representation to other groups. Thus Professor Keiser wrote: the Board of Directors "look like a *Who's Who* of American Industry." [87] And, Professor Bach alleged that directors tend to be conservative.[88] A recent study covering the period 1950–1970 found that class B directors tended to come predominately from large manufacturing firms: "In this 21-year period not a single representative of a labor union, a consumer interest organization, or a similar nonmanagerial or non-producer interest group was a class B director."[89] And it found the situation was not very different for class C directors who: [90]

> share a narrow professional background. First, practically all class C representatives, even those from the academic and communications sector, had top managerial or "ownership" status . . . . Second . . . unions, consumer groups and a variety of nonprofit organizations remain virtually unrepresented.

This narrow social and economic base of the directors has drawn a great deal of criticism, particularly the absence of directors with a labor union background.[91] This is because, as pointed out above, the directors do not merely administer the Federal Reserve Banks, but also serve as policy advisers. According to one former director, they *do* influence the Bank's president and "may help in the evaluation of the weights to be assigned to different social or monetary goals. . . ." [92] Consequently, the upper reaches of American society have here a channel to the Board of Governors and the FOMC. This should not be interpreted as saying that the directors are concerned with the economic interests of a narrow segment of society. But while they do try to represent the public interest, the public interest is amorphous and looks differently to people in different circumstances.

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[85] *Ibid.*, pp. 155–56.
[86] However, Maisel does not think that this helps the Fed very much, *ibid.*, p. 137.
[87] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *Compendium on Monetary Policy Guidelines and Federal Reserve Structure*, 90th Congr. 2nd sess., 1968, p. 349.
[88] *Federal Reserve Policy Making, op. cit.*, p. 127.
[89] Thomas Havrilesky, William Yohe and David Schirm, "The Economic Affiliations of Directors of the Federal Reserve District Banks," *Social Science Quarterly*, vol. 54, December 1973, p. 611.
[90] *Ibid.*, p. 615.
[91] However, the Federal Reserve has apparently tried to appoint labor union leaders, and found them unwilling to serve as directors since they were afraid that such an appointment would be the "kiss of death" for them.
[92] Willis J. Winn, *op. cit.*, p. 248.

Another criticism is that the directors obtain inside information which they can use in their business affairs. In fact, a Staff Report of the Banking, Currency and Housing Committee has suggested that this might be one inducement for serving on the Board of Directors.[93] However, the Reserve Bank presidents are supposed to avoid giving the directors unnecessary inside information. And apparently, the use of inside information is not a serious problem.[94] Finally, the use of directors, and former directors, to generate political support for the Federal Reserve is open to criticism. Why should the Fed have this instrument of political power? However, this is probably not a major issue.

Thus, there are really two major problems with the present organization of the Board of Directors. One is that "election" by member banks is archaic; the second is that the directors are not sufficiently representative of the community. This second problem is insoluable. If the directors are to provide useful managerial advice, and advice about economic conditions, to the president, then they must be chosen from the managerial class, and will necessarily be unrepresentative of the larger community.

This inability of the directors to fulfill their two divergent roles raises the question whether the Board of Directors should not be abolished altogether.[95] A Federal Reserve Bank is not like a usual business corporation, and does not need directors. To a considerable extent the Board of Governors functions as a Board of Directors since it reviews the budget, as well as the salaries of senior management, and generally supervises the Banks. Since the presidents find the advice of businessmen and bankers useful in managing the Bank, they could be given a management advisory council instead of a "Board of Directors."

Although this proposal sounds quite radical, it is not really so. To a substantial extent the Board of Directors already functions as a management advisory council. It differs from such a council in two ways. One is that it does have some, albeit quite limited, influence on monetary policy. The second is that it plays an important role in selecting the president, and in fixing his salary.

Since the Board of Directors is very unrepresentative, and also generally lacks technical expertise in monetary policy, there is no reason why it should have any influence over monetary policy.

If the directors are to function as a management advisory committee then there is little reason why they should participate in choosing the president and in fixing his salary.[96] If the president were merely the chief administrator of the Bank it might be justified. But the president is more than that; as a participant in the FOMC he is an important policy-maker. Hence, the presidents should be selected, and their salaries fixed, not by the directors, but in ways described below.

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[93] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, p. 317.

[94] See E. A. Goldenweiser. *op. cit.*, p. 297.

[95] According to Governor Robertson the use of a Board of Directors is not necessary, though it does have the advantage of being in accord with Federal Reserve tradition, and preserves a link between the Fed and member banks; it also provides the smaller banks with access to the Federal Reserve. (U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, p. 1361.

[96] This is so particularly since there exists a rumor—which of course is hard to evaluate—that some presidents are afraid of their Board of Directors.

Once it is decided to transform the Board of Directors into a purely management advisory committee, there is no reason for keeping the complicated system of class A, B and C directors. Instead, the president could appoint his own management advisory council. It is therefore recommended that the Board of Directors be eliminated, and a Management Advisory Council substituted in its place. Or, if it is believed that keeping the term "director" would be useful in recruiting management advisors, they might still be called "directors," but their functions should be confined to advising the president on management problems and on economic conditions in his District.

In addition to managerial advice the presidents should also obtain guidance on policy trade-offs by contacts with people representative of the general public. They should avoid a situation such as surfaced in *a Hearing*, when a president stated that, while he had talked with the Chamber of Commerce, he had not talked to labor organizations.[97] It is therefore recommended that contact with a broad spectrum of the public should be stressed more as one of the objectives of the presidents. They should stress this part of their public relations activities at the expense of talking before bankers and businessmen. Some presidents may want to talk to various people informally, others may prefer to meet with an advisory group composed of those whose views they normally have little contact with. It would not be useful to mandate an advisory council since no law can require someone to take advice seriously. However, the presidents should *consider* using a formal advisory council.

OTHER ASPECTS OF FEDERAL RESERVE BANK ORGANIZATION

The Federal Reserve Banks are primarily operating agencies; 95 percent of their personnel is engaged on "chore" functions, only 5 percent deal with policy.[98] It is therefore reasonable to ask whether they should not be turned entirely into operating branches of the System. Their major policy making and policy-advising functions consist of their president's membership in the FOMC, their maintenance of strong research staffs, and their channeling advice from their directors and from their local communities. The last of these has already been discussed, and the membership of the presidents on the FOMC is discussed below. This leaves the question whether they should maintain strong research staffs.

On a superficial level it may seem desirable to have the System's research functions centralized, rather than scattered all over the country. But this is wrong. Not only are small organizations often more efficient than large ones,[99] but this appears to be particularly the case with research. It seems, though this is a matter of personal impression rather than anything that can be documented, that the optimal size of economic research organizations is fairly small. Diseconomies of scale soon occur. A research organization has to be more or less hierarchial. But this has a serious drawback because it means that any errors in judgment made by the senior staff can have very deleterious effects on the work of their subordinates. It is particularly important in research where, after all, the sought-for product is to

[97] *Ibid.*, p. 407.
[98] Willis Winn, *op. cit.*, p. 247.
[99] Sherman Maisel believes that the Federal Reserve Banks are more efficient than centralized government agencies. (*op. cit.*, p. 163.)

some extent unknown, and the proper means of obtaining it can only be guessed at, to have a situation of freedom and independence. Only this type of organization will attract first rate researchers. It is therefore better to have many independent centers of research than to centralize all economic research at the Board of Governors.[1]

Moreover, it is easier for new ideas to penetrate one of thirteen separate research organizations than a single large research unit.[2] By having thirteen separate research units the Federal Reserve is somewhat less likely to be dogmatic than if it had only a single one. Furthermore, having part of the research done outside Washington, and supervised by twelve different presidents, rather than by the main policy-makers in Washington, should help to prevent research from becoming self-serving. There is always a danger that what is called "research" is merely a search for justifications of positions policy-makers have taken. Certainly, in recent years this has not been a problem at the Federal Reserve, but even so, having part of the System's research done at the Banks helps guard against the danger that a strong Chairman with a like-minded Board might pervert research.

Another problem of Federal Reserve Bank organization is the position of its president. It is anomalous. As Professor Michael Reagan has put it, he is appointed privately, but is a public functionary. His position is neither public nor private, but some of each.[3] De jure he is a public servant. But he is appointed by a Board of Directors which has a majority of members at least formally elected by the private sector, though his appointment is subject to the approval of the Board of Governors. However, it seems that in practice the situation is *sometimes reversed*; on at least one occasion the Board of Governors has asked a Bank to select a president from a list of candidates presented to it.[4] Having the president selected, in part, by the Board of Directors is hard to justify. The standard argument for it is that the class A and B directors function as public officials rather than as representatives of commercial banks and other private interests. But this argument does not meet the issue. What warrant is there for allowing member banks to participate even indirectly in selecting public officials? Do we allow, say, exporters, to decide who should be some of the senior policy-makers in the State Department? Why do this for monetary policy? Surely, this is a vestige of the days when the Federal Reserve was thought of at least partially as a cooperative enterprise of bankers.

On the other hand, it would also not be advisable to have the presidents chosen by the Board of Governors. At FOMC meetings the presidents should function as equals to the governors and as independent voices. This is inconsistent with their appointment by the governors.

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[1] And since the Federal Reserve occasionally appoints research teams from the Board and from various banks to work jointly on particular problems, one of the potential advantages of centralization, the availability of specialized personnel, already exists under the present decentralized system, though it is not used very much.

[2] See Edward Kane, "Statement" in U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance. *Compendium on Monetary Policy Guidelines and Federal Reserve Structure, op. cit.*, pp. 343–44.

[3] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, p. 1581.

[4] Nowadays the presidents are professional central bankers, and the majority are economists rather than bankers. Some presidents have been promoted from staff positions.

Professor Reagan has suggested that the presidents be appointed like the governors by the President with the advice and consent of the Senate.[5] This would have the advantage of raising the prestige of the presidents since they would then be appointed in a way similar to the governors. But there is a danger here that these positions may become subject to partisan political considerations, and that they would require clearance from the senior senator of the largest state in the District. Both presidential appointment and senatorial consent would place a premium on political contacts, and might make it difficult to appoint an outstanding person from outside the District.

To avoid these difficulties, while keeping the principle of presidential appointments the following system is recommended. When a presidency becomes vacant the President should appoint a bipartisan committee charged with recommending three candidates to him.[6] He would then select one of these candidates and submit his name to the Senate. If the Senate rejects this person he would suggest his second, and if necessary his third, choices.[7]

The Federal Open Market Committee

One of the most controversial aspects of Federal Reserve organization is the Federal Open Market Committee. It is indeed an anomaly whose origin is explained by the fact that open market operations were originally not considered a tool of monetary policy, but were left to each Bank to use as a way of earning income.

The sharing of monetary powers between the Board of Governors and the FOMC has both advantages and disadvantages. To start with the advantages, we have first the fact that the FOMC provides pluralism. It generates a hearing for different points of view, and limits the unreasoned acceptance of ideas on the "that's the way we *all* think" basis, something that is always a danger when decision-makers talk to each other all the time. Having some members of the FOMC whose daily contacts are outside Washington should help to guard against the mutual infection with stale ideas which is a danger in any bureaucracy.[8]

Furthermore, according to Professor Friedman:[9]

> The Board in Washington is very much subject to a kind of political pressure which the banks spread around the country are not. . . . The members of it . . . are directly connected with the political activities in the Capitol.

However, the governors, just because they do experience political pressure more frequently, can build up some immunity to it.

In addition, there is the danger that the quality of the governors *might* decrease sometime in the future: that partisan political appointments may predominate. If this should occur, it may be useful to have the presidents, with their longer terms of service, on the FOMC.[10]

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[5] *Ibid.*, p. 1581.

[6] Such a bipartisan committee might well reflect the party composition of Congress.

[7] Although it is extremely unlikely, in principle the Senate could reject all three candidates. In this case the committee should select three more candidates.

[8] Thus Governor Robertson pointed out that the Board members meet the same people all the time, and tend to get into a rut. *Ibid.*, p. 121.

[9] *Ibid.*, p. 1147.

[10] James Knipe, *The Federal Reserve and the American Dollar* (Chapel Hill, N.C., 1965), p. 213.

It is important to note that the effective length of service of the presidents also softens the power of a two term President to appoint a majority of the Board.[11] More generally, what the existence of the FOMC does is to interpose an additional barrier between the political process and monetary policy. Not only are the governors appointed to long terms, but they participate in appointing others who will for many years join them in voting on monetary policy. It is therefore an important additional support for the Federal Reserve's independence.

In addition the Federal Reserve has argued that the presidents possess useful information on regional conditions, but that their advice will be really useful only if they have a vote on the FOMC, since advice without responsibility is of little value.[12] *Perhaps* this argument should be reinterpreted as saying that the governors would not pay very much attention to the views of the presidents, if the presidents did not vote.)

More generally, having a vote on the FOMC is needed to maintain the presidents' interest in the FOMC, and makes it possible to recruit qualified presidents and staff.[13]

However, it is not at all clear that the defenders of the FOMC are correct in claiming that information on regional conditions is so valuable. According to former Governor Maisel, its value is "close to zero." [14] Furthermore, the advice given by nonvoting members of the FOMC is in one way better than that offered by voting members. Since FOMC members wish to minimize dissenting votes the voting presidents are less willing than nonvoting presidents to advocate a minority position. Hence, it is not clear that the net effect of having the presidents vote actually does improve the quality of their advice.

Critics of the FOMC have raised a number of issues. Perhaps the most prominent one is that the presidents are appointed by the directors, the majority of whom are elected by bankers. Hence, the argument runs, bankers have a powerful—and entirely unwarrented—voice in monetary policy. However, as was pointed out above, currently the presidents owe their jobs to the Board of Governors as well as to the directors, and besides the class B directors are often not really chosen by bankers. But all the same, the directors' influence in selecting the presidents is large enough for former Governor Maisel to oppose having the presidents on the FOMC.[15] However, if the proposal made here about the appointment of presidents is accepted this would no longer be a problem.

Yet a significant issue would still remain. What is important is not only who appoints the presidents, but who the presidents are in daily contact with. One's contacts surely shape one's social and political sympathies and policies. The governors, while they do make many trips to the rest of the country, are largely in contact with the political community in Washington. The presidents, on the other

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[11] See Edward Kane, "The Re-Politicization of the Fed," *op. cit.*, p. 744.

[12] See for instance the testimony of President Hayes in U.S. Congr. House. Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op cit.*, p. 528.

[13] See the testimony of President Bryant, *ibid.*, p. 490, and the Statement by Professor Okun in U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *Compendium on Monetary Policy Guidelines and Federal Reserve Structure, op. cit.*, p. 82.

[14] Sherman Maisel, *op. cit.*, p. 162.

[15] *Ibid.*, p. 160.

hand, though they do talk to other groups too, have most of their contacts with the banking and financial community. Hence, one would expect the two groups to have at least somewhat different outlooks.

Furthermore, as Professor Eckstein has pointed out, the presidents are selected in good part for their administrative abilities rather than for their judgment on monetary policy.[16] Hence, one would expect them to be less capable monetary policy makers than the governors are.

Besides, the present system is one which splits the policy tools between two agencies. The Board determines reserve requirements, and has (essentially) control over the discount rate, and over various minor tools, while it has to share control over open market operations with the presidents on the FOMC. According to Professor Reagan there is general agreement that this division of authority is bad.[17] To be sure, the Federal Reserve has argued that there is really no problem of coordination since the use of all tools is discussed by the FOMC. But former Governor Maisel has pointed out that this causes decisions on the use of all tools to be delayed until the next FOMC meeting, and limits their use on a continuous basis.[18]

In addition, FOMC meetings are large and potentially cumbersome. Hence, the Chairman has to keep them to a tight schedule, and this limits discussion.[19] And, rightly or wrongly, it has been asserted that information leaks out.[20]

Another criticism of the FOMC is that the presidents impart a tight money bias. According to Sherman Maisel: [21]

> While the range of value judgments of the presidents is as wide, its center position is considerably more restrictive than that of the Board. There are many possible reasons for this tilt. The selection process for the presidents emphasizes more conventional and conservative characteristics. Perhaps the Board is too close to the politicians in Washington or perhaps the presidents are too close to commercial bankers in the field.

On the other hand, Congressman Reuss and Professor Bach believe that there is little consistent difference between the Board and the presidents.[22] This disagreement is hard to resolve. A statistical study of voting records shows that in the 1955–1959 period the presidents favored easier policies than the governors, but in the 1960–1965 period the opposite was the case.[23] Looking at the most recent period, January 1960–May 1975, the presidents on the average favored tighter policies than the governors. But one has to be careful with this result. Since dissenting votes are so rare, only a quite limited number of cases of dissent are available. (The sheer size of the FOMC meetings, with governors, presidents and many staff members present generates

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[16] "Statement" in U.S. Congr. House, Committee on Banking, Currency and Housing, *Compendium on Monetary Policy Guidelines and Federal Reserve Structure, op. cit.*, p. 153.

[17] "The Internal Structure of the Federal Reserve: A Political Analysis," *op. cit.*, p. 386.

[18] Sherman Maisel, *op. cit.*, p. 160.

[19] Cf. Maisel, *ibid.*, p. 160.

[20] Sanford Borins, "The Political Economy of 'The Fed,'" *Public Policy*, 1972, p. 186; Willis Winn, *op. cit.*, p. 247.

[21] Sherman Maisel, *op. cit.*, p. 162.

[22] G. L. Bach, *Making Monetary and Fiscal Policy, op. cit.*, p. 179; Congressman Reuss in U.S. Congr. House, Committee on Banking, Currency and Housing, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, pp. 1488–89. See also C. Walker (*ibid.*, p. 1888).

[23] See E. R. Canterbery, "A New Look at Federal Open Market Voting," *Western Economic Journal*, vol. 6, December 1967, pp. 33–35. (This tabulation counts not only formal votes, but also expressed, though unrecorded, dissents.)

a tendency towards conformity.) Hence what appears to be a preference for restrictive policies by the presidents might possibly be the result of sampling error.

A quite different criticism is that the presidents tend to go along with the decisions of the governors. Thus, the record shows that in the most recent period presidents have dissented from the majority position less frequently than governors, though this too could perhaps just reflect the limited sample.[24] Insofar as this is not a sampling accident, and presidents do dissent less frequently this could be due to a tendency, detected by Professor Robertson, of their deferring to Board members.[25] Professors Hasting and Robertson have suggested that since the presidents depend upon Board approval serious opposition cannot be expected from them.[26] And Professor Robertson has pointed out that the Board would not approve unorthodox people as presidents.[27]

Whatever the reason, in the period January 1960–May 1975 there has never been a case where a majority of the governors were outvoted by the presidents, though, of course, the presidents may have had a great deal of influence on the Directive during the discussion.[28] This is so particularly since there were some cases in which three governors dissented. It is not unlikely that, had the votes been confined just to the governors, the Directive would have been changed to avoid a four to three split.

In view of these criticisms it is not surprising that many observers believe that the FOMC should be abolished, in the sense that only the governors should vote on open market operations. This has been advocated by the Commission on Money and Credit, by the Hoover Commission and by others.[29]

But, as pointed out above, there are a number of arguments, some of them quite substantial, on the other side too. Probably the three most important issues in this debate are, on the one side, the ability of the presidents to introduce new points of view, and on the other side, that these views are influenced by the local financial communities. Third, there is the fact that the presidents are further removed from the political process and control than are the governors—which appeals to some people, but not to others. All in all, neither side in this debate has succeeded in making a preponderate case, particularly, if as recommended above, the presidents are officially appointed by the President.

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[24] See also William Yohe, "A Study of Federal Reserve Open Market Committee Voting, 1955–64," *Southern Economic Journal,* vol. 32, April 1966, pp. 396–405.

[25] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit.,* pp. 1362–63.

[26] *Ibid.,* p. 1522.

[27] *Ibid.,* p. 1363.

[28] There was one case where a majority of the governors were in dissent from the majority position. But two of them wanted an easier policy, one wanted a tighter policy, and one objected to the way the Directive was formulated.

[29] Commission on Money and Credit, *Money and Credit, op. cit.,* p. 90; Commission on the Organization of the Executive Branch, *op. cit.,* p. 113; Michael Reagan, "The Political Structure of the Federal Reserve System," *op. cit.,* p. 72; Clark Warburton in U.S. Congr. House, Committee on Banking, Currency and Housing, *The Federal Reserve System After Fifty Years, Hearings, op. cit.,* p. 1319. Professor Samuelson has suggested (*ibid.,* p. 1109) that at most the president of the New York Bank, and one other president (in rotation) should be allowed to vote on open market operations.

Finally, the opinion of Dr. Arthur Okun is worth noting:[30]

Abolition of the FOMC would probably produce a drastic change in the character of the Federal Reserve System, with results that are rather difficult to predict. For this reason we are hesitant to recommend abolition of the FOMC, even though we can see some advantages in it. As an alternative . . . Congress should consider making Reserve Bank presidents subject to Presidential appointment and Senate confirmation.

However, the argument that abolition of the FOMC could drastically change the Fed is open to the objection that such a drastic change may be desirable. If one believes—as has been persuasively urged—that the Fed has done a poor stabilization job in the past then drastic change may indeed be welcome.

Apart from the question of whether the presidents should vote in the FOMC, there are three other aspects of the FOMC that should be discussed. One is the number of votes possessed by the presidents. They now have five votes compared to the seven for the governors. This is not sacrosanct, and anyone who is *somewhat* concerned about the presidents voting on the FOMC, but not concerned enough to want to abolish the FOMC, may want to reduce their voting strength, to, say, three.

Another issue concerns the rotation of the presidents. Currently the New York Bank president is a voting member every year, but most of the other presidents vote only every third year. It is not clear that the New York Bank should have a permanent vote. One reason given is that it is this Bank that actually carries out the open market operations. But, while this is a good argument for having the New York president attend all FOMC meetings, this does not entitle him to a permanent vote. Nor is it persuasive that the New York Bank is the largest one. A superior argument is that the New York president is probably better informed about the financial situation than are the other presidents since he is in close contact with the main money market of the country. But such contact can also generate myopia. To some extent, the permanent vote for the New York president is a residual from the days when the New York Bank was much more powerful than it is at present.[31] The question whether or not the New York Bank president should always be a voting member is more than just a technical issue. Institutional factors tend to make him favor an operating strategy that places much more emphasis on interest rates than on aggregates such as the supply of money. Since this choice of strategy is extremely important, one's attitude towards depriving him of his permanent vote may be heavily influenced by one's attitude on this issue.[32] It is therefore recommended that the appropriateness of the permanent vote for the New York president be reexamined.

Since the eleven other Banks divide four FOMC votes between them, two Banks are given a vote every second year, while the others vote only every third year. These two Banks are the Chicago and Cleveland Banks. Given the importance of the Chicago money market one might

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[30] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *Compendium on Monetary Policy Guidelines and Federal Reserve Structure, op. cit.*, p. 82.

[31] Perhaps it also reflects the days when it was felt that the Committee was using funds belonging to each Bank, so that the largest bank deserved more influence.

[32] In addition, in the postwar period the New York Bank president has typically favored a more restrictive policy tnan the rest of the FOMC.

argue for its greater voting power in the same way as for the New York Bank. But it is hard to see why the Cleveland Bank should have a greater vote too, just because of its proximity to the Chicago Bank. Surely San Francisco is a more important money market than Cleveland. It is therefore recommended that, if the New York Bank's permanent vote is kept, the San Francisco Bank, rather than the Cleveland Bank, have a rotating vote with the Chicago Federal Reserve Bank.

A third issue that should be reexamined is the rotation of the presidents. Instead of giving most presidents a full vote every third year, they could be given a one third vote every year instead.[33] One of the reasons the Federal Reserve gives for having the presidents vote is that the responsibility of voting improves the advice they render on the FOMC. But what about their advice in those years when they do not vote? Perhaps a one-third vote is as effective as a full vote in inducing the presidents to prepare themselves for FOMC meetings.

Furthermore, at present, the rotation of presidents can change the character of the FOMC. Some people in the System therefore speak of liberal or conservative FOMC's. Having all presidents vote would eliminate such unwarranted shifts.

And there is also a legal issue. Representative Patman has argued that, contrary to law, all presidents are really on the FOMC since they all attend the meetings and partake in the discussion.[34] The Federal Reserve response to this has been that only those presidents who currently vote are members of the FOMC, and that the others attend only in an advisory capacity. But this is questionable. Much of the important work of the FOMC does not show up in the voting process. The FOMC usually does *not* function by the majority imposing its will on the minority; rather in formulating the Directive there is an attempt to attain as much of a consensus as possible. Dissenting votes are rare. In formulating the consensus that becomes the Directive, the Chairman of the Board presumably pays at least some attention to the comments of all presidents, and not only to those that are voting members. Insofar as this is the case all presidents have an impact on policy, regardless of whether or not they are voting members. In fact, given the strong tendency of the FOMC to reach for a consensus, one might argue that participation in the discussion is as much, or more, important, than participation in the voting. Consequently, the Federal Reserve's answer to Representative Patman is inadequate. Yet, if the FOMC is to be preserved in its present form, there are good reasons for having all the presidents in attendance.

It is therefore recommended that instead of most presidents voting every third year, they should have a fractional vote every year. This fraction could be set at one third. However, if, as recommended below, the size of the Board of Governors is cut to five members, then (if the New York Bank keeps its full vote) a one third vote would probably be too large since it would give the presidents equal representation to

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[33] James Knipe (*op. cit.*, p. 213) recommends giving presidents a permanent half vote. This would give them almost as much voting power as the governors.

[34] See U.S. Congr. Joint Economic Committee, *Recent Federal Reserve Actions and Economic Policy Coordination, op. cit.* p. 407.

the governors.[35] Hence, under these conditions they should probably be given a one quarter vote.[36]

The Board of Governors

Discussions about reforming the Board of Governors have dealt mainly with the proper size of the Board and its tenure, and with the position of the Chairman. However, the method of appointing the governors should also be discussed.

SIZE AND TENURE

Very many observers have expressed an opinion about the proper size of the Board, and generally this opinion has been that it should be reduced. For example, the Commission on Money and Credit recommended a five member Board, while the Hoover Commission preferred a three member Board.[37] A Staff Report of the Joint Economic Committee also wanted consideration given to a reduction in the Board's size.[38] And this reform has been supported by former Federal Reserve Chairman McCabe, as well as by numerous others.[39] Relatively few people have defended a seven man Board, though they include former Chairman Martin.[40]

The considerations that suggest cutting the size of the Board are that this would raise each governor's prestige, and hence these positions would attract better qualified people. And also, with a smaller Board fewer candidates for governorships would be needed. In addition, decisions could be made more promptly, and each governor's contribution to the debate would carry more weight since he would have a larger share of the total vote. On the other hand, there would be the absence of that greater wisdom which *may* result from a larger Board.[41] Furthermore, the workload imposed on the governors is large, and—unless their bank supervisory duties are cut—there would be, given the way the board currently functions, too much work for a smaller Board. However, this great workload results, in part, from the fact that the Board is reluctant to delegate more authority to individual governors. The Board could delegate more regulatory authority

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[35] They would actually have a slightly greater vote than the governors. If a president cannot attend a FOMC meeting he sends his first vice president. But if a governor misses a meeting he does not send a deputy in his place.

[36] This scheme does, however, leave one problem unresolved. This is that the presidents do not have a vote on the use of the other tools of monetary policy. But as far as discount rate changes are concerned each president has at least some influence on the discount rate set by his own bank. This leaves reserve requirement changes. *Perhaps* this tool should be vested in the FOMC.

[37] *Money and Credit, op. cit.,* p. 87; Commission on the Reorganization of the Executive Branch, *op. cit.,* p. 114.

[38] U.S. Congr. Joint Economic Committee, *Staff Report on Employment, Growth and the Price Level,* 86th Congr., 1st sess., 1960, p. 409.

[39] See A. J. Clifford, *op. cit.,* p. 227; New York Clearing House Association, *The Federal Reserve Reexamined* (New York, 1953), p. 139; E. A. Goldenweiser, *op. cit.,* pp. 300–304; G. L. Bach, *Federal Reserve Policy Making, op. cit.,* p. 224; Michael Reagan, "The Political Structure of the Federal Reserve System," *op. cit.,* pp. 75–76. A survey of monetary economists shows a substantial majority for reducing the size of the Board. See U.S. Congr. House, Committee on Banking, Currency and Housing, *Compendium on Monetary Policy Guidelines and Federal Reserve Structure, op. cit.,* p. 26.

[40] *Ibid.,* p. 46. Presidents Hickman and Irons also opposed cutting the size of the Board. U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit.,* pp. 137 & 845.

[41] It also been argued that with a smaller Board there would sometimes not be a quorum. But an effective chairman should be able to ensure the attendance of a sufficient number of governors.

to individual governors so that, for example, not all governors would have to read through the voluminous submissions on merger cases. And it could delegate some authority to its staff—though this may require new legislation. Moreover, it is recommended below that more authority be delegated to the Reserve Banks. Another argument for a seven member Board is that, in addition, if some governors are not carrying their weight this is less of a problem with a large Board than with a small one.

An additional aspect that should be considered is the impact of cutting the Board's size on the Chairman's position. On the one hand, it would raise his power since his vote would now represent a larger proportion of the total vote. On the other hand, by raising the prestige of Board membership in general, it would reduce the Chairman's relative prestige, and hence his suasion over the Board.

While most of the arguments are plausible, none are really convincing. But since apparently the great majority of observers believe that cutting the size of the Board to five members, is desirable, this course of action can be—with some hesitation—recommended, *if* the supervisory workload of the Board is cut.

A more significant issue is the length of the governors' terms. Many observers prefer much shorter terms.[42] There seems to be substantial majority support for this among monetary economists, and Chairman Martin too has given a rather cautious blessing to this proposal.[43] One major advantage is that shortening the term would eliminate from the Board those who have grown stale and inefficient.[44]

On the other hand, it would make governorships less attractive, and would involve a continual replacement of governors who have learned the job with those who have yet to learn it. Another problem is that with a shorter term, towards the end of his term a governor might look over his shoulder at potential business or academic employers. If reappointment would be allowed, so that one potential employer would be the President, then the Board could become more subject to the President's wishes. And since the President is likely to be strongly influenced by the Chairman's evaluation of a governor, it would make the governors more dependent on the Chairman's goodwill.

And this brings us to what is a central issue in the dispute. Shortening the terms of office, even if reappointment is not permitted, would strengthen the President's control over the Federal Reserve since each President would appoint more governors. Obviously opinions differ on the desirability of this. Under present circumstances it would be desirable. But if the above proposal to allow the President to set the Fed's goals every two years is accepted, then the President would have sufficient control over the Fed. Giving him a further leverage by reducing

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[42] See, for instance, Commission on Money and Credit, *op. cit.*, p. 87; Professor Paul Samuelson in U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *Hearings, op. cit.*, pp. 1106–109; Governors Deane and Mitchell (*ibid.*, pp. 1180 & 1202; Professor Ross Robertson (*ibid.*, p. 1359); and Dr. Clark Warburton (*ibid.*, p. 1341).

[43] See also the responses of economists tabulated in U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *Compendium on Monetary Policy Guidelines and Federal Reserve Structure, op. cit.*, p. 26; U.S.C. Congr. Joint Economic Committee, *Monetary Policy and the Management of the Public Debt, Replies to Questions . . . , op. cit.*, p. 301

[44] In any organization, there is a tendency for the less effective members to be least likely to resign, since they are less likely to receive tempting outside offers.

the terms of office would then be undesirable because of the danger of partisan political influence.

Finally, it should be noted that this discussion is in a way unrealistic. Very few governors serve out the current 14 year term. The average length of service up to 1967 was seven years.[45] Hence, it may seem that a reduction to, say, six years would not be a very great change. But this is not the case because a significant number of governors have served much longer than seven years.[46]

The fact that the average term of office is only seven years, rather than close to the fourteen year maximum provides ammunition both for those who want to cut the maximum length of the term, and for those who do not. The former can argue that with a seven year average, and a fourteen year maximum there is room for a wide variance in the length of time which governors actually serve. Hence, one President may be fortunate and find that he is able to make many appointments to the Board, while another President may be much more limited in the number of governors he appoints. There is no reason why the influence of Presidents over the Federal Reserve should vary in this completely arbitrary way. Cutting the maximum length of the term would reduce the variation in the time actually served. On the other hand, opponents of cutting the length of terms can argue that the seven year average length of service means that, on the average, a President is able to appoint a majority of the governors by around the start of his second term, and that this gives him sufficient influence.

It is not easy to choose sides in this debate. The most important issue is how much influence the President should have over the Board. If, as recommended here, he is given the power to set its goals every two years, then even with the present fourteen year maximum term, he would have sufficient influence. But if this recommendation is not put into effect, then cutting the maximum length of the term to, say, ten years is probably justified.

There are two other aspects to the appointment of governors. At present, the terms expire on January 31 of even numbered years. Hence, a new President might have to wait up to a full year before a vacancy on the Board occurs. It is therefore recommended that the terms be changed so that they expire, say, in March of odd numbered years.[47] To prevent such a system from drifting off base, it would be necessary to require that when a governor retires prior to the expiration of his term, the successor is appointed to the unexpired part of that term, and not to a full term. Admittedly, this would have two disadvantages. First, if a governor resigns shortly before his term expires it may be difficult to find a qualified candidate to accept such a short term position. And second, the new appointee might not serve long enough to learn how to do his job efficiently. But these disadvantages are not strong enough to outweigh the advantage of having the President appoint at least one governor at the start of his term.

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[45] See Mary Ann Clements, "Appointive Board Members, Average Tenure," unpublished manuscript, p. 3.

[46] Suprisingly, it made virtually no difference to the length of the term actually served, whether a governor was appointed to a full term, or to the unexpired part of his predecessor's term. *Ibid.*, p. 3.

[47] See the Statement of the (1968) Council of Economic Advisers in U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *Compendium on Monetary Policy Guidelines and Federal Reserve Structure, op. cit.*, p. 82.

POSITION OF THE CHAIRMAN

The chairman holds very substantial power over the Board. Thus, former Governor Maisel attributes 45 percent of the influence inside the Federal Reserve to the chairman, compared to 20 percent for all other governors combined,[48] and even this may understate the chairman's relative power. He attributes this power to: (1) the chairman being the titular head and spokesman for the System, (2) his representing the System in decisions that never reach the board, (3) the inherent powers of the chairmanship, such as setting the agenda, (4) the delegation by the Board of supervisory powers over the staff to the chairman, and (5) the fact that the power he thus possesses serves to attract additional votes at Board and FOMC meetings.[49]

This concentration of power in the chairman's hands is unfortunate. A major reason for having a seven member Board, rather than a single individual heading the System, is to avoid concentrating so much power. And yet, even with a seven member Board power is heavily concentrated.[50] The disproportion in the power and influence of the Chairman and of other governors is probably one reason for there being little dissent; the other governors and the presidents "go along" with the Chairman. As Representative Reuss put it: [51]

> It is a pretty monolithic board. There is no disagreement within the Board, apparent to the public, at the time decisions are made. Yet on the outside, a great many very respected, and by no means radical, economists and financiers may differ very deeply with the Fed.

This probably results in insufficient consideration of alternatives, in a reluctance to admit errors, and in inadequate public discussion.

But while it would therefore be desirable to reduce the chairman's influence over the Board this is not easy. One possible solution would be for the President to appoint governors who not only have strong personalities, but also hold points of view which differ sharply from the Chairman's. In this connection it is disturbing to note that, at least the economists among the governors seem to have fairly similar points of view. Thus, despite the substantial importance of the monetarist school in the economics profession, there is no monetarist on the Board. But unfortunately, this tendency of the President to appoint governors with views similar to the Chairman's is likely to persist. If the chairman is the President's own appointee, he probably reflects the President's views, and in appointing other governors, the President is likely to select people who have this same viewpoint. And even if the chairman is the appointee of a previous President, the President would usually seek his advice in making new appointments. By giving in to the President on some issues a Chairman can probably obtain enough of the President's goodwill to be able to block the appointment of governors who sharply disagree with him.

Another possible way of lowering the chairman's power would be to institutionalize a node of opposition on the Board by mandating a

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[48] *Op. cit.*, p. 110.
[49] *Ibid.*, pp. 123–29.
[50] Furthermore, the limited power of the other governors relative to the chairman's makes it harder to recruit qualified governors. But, on the other hand, if the governors have less power their qualifications are less important.
[51] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit*, pp. 116–17.

bipartisan Board. But, as discussed above, this proposal has serious weaknesses. A third possibility would be to have the chairmanship rotate among the governors. But this proposal is open to the objection that some governors may lack the necessary administrative and public relations skills. Furthermore, it is far from clear that all governors *should* be equal. While this would make the governor's job more attractive, the attraction of the permanent chairmanship could no longer be used to recruit an outstanding person.

Since these fundamental solutions to the problem have major drawbacks one has to rely instead on a series of minor reforms. Three minor changes are therefore recommended: First the other governors should function more as the spokesmen for the System. Specifically, Congress should resist the temptation of always wishing to confer with the "top man," invite other governors to testify more frequently, and rely less on the chairman's testimony. To some extent, various governors specialize on particular problems, e.g. international finance, bank regulation etc., and they, rather than the chairman, should be invited to testify on these issues. Second, fewer decisions should be made by the chairman on his own, and more problems should be taken up by the whole Board. This would be feasible if, as suggested below, the regulatory workload of the Board were reduced. Third, the Board should consider delegating supervision over the staff to the vice-chairman, or to a committee of governors rather than to the chairman.[52]

Another important issue relating to the chairman is whether his four year term as chairman should be coterminous with that of the President. At present it is possible for a President to be saddled with a chairman he opposes for virtually his whole first term. It has therefore been proposed by the Commission on Money and Credit and by the Hoover Commission that the chairman's (and vice-chairman's) terms should start shortly after the President's inauguration, and the Hoover Commission has further recommended that the chairman serve at the pleasure of the President.[53] A survey of economists has overwhelmingly supported making the chairman's term coterminous with the President's.[54] As Representative Windall has said "I don't think there is too much disagreement" about this, and Sherman Maisel too has written that "there is no debate" about it.[55]

However, it is not at all clear that making the chairman's term coterminous with the President's would *necessarily* increase the President's influence over the Federal Reserve. This is so, because if the President, shortly after the beginning of his second term reappoints, or newly appoints, the chairman, this chairman now knows that his reappointment will never again be passed upon by this particular President. On the other hand, if the President is saddled with an "old" chairman for virtually all his first term, then when he finally does

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[52] Finally, it is worth noting that the proposal to have the chairman serve at the pleasure of the President would raise the chairman's prestige by linking him closer to the person elected by all the people. This is a weakness of that proposal.

[53] Commission on Money and Credit, *op. cit.*, p. 87; Commission on the Organization of the Executive Branch, *op. cit.*, p. 112.

[54] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *Compendium on Monetary Policy Guidelines and Federal Reserve Structure, op. cit.*, p. 26.

[55] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, p. 1691; Sherman Maisel, *op. cit.*, p. 160.

get to appoint his own chairman, this chairman has to worry about being reappointed virtually throughout the President's second term. But despite this uncertainty, is is probably desirable to have the chairman's term coterminous, so that the chairman is someone the President can work with easily. Similarly, to obtain a smooth working relationship between the chairman and the vice-chairman it is also recommended that the vice-chairman's term too be coterminous.[56]

APPOINTMENT OF GOVERNORS

Beyond these much discussed issues of size of the Board, the tenure of governors, and the chairman's term, there is a fundamental issue that should be taken up. This is the President's role in appointing governors. The President, as the Chief Magistrate, should certainly have a very substantial role in this. But there is always the danger that he will appoint someone to repay a political debt, either to this person, or to a group with which he is identified. Furthermore, the President might be tempted to appoint governors who would allow partisan political considerations to influence their policy decisions. Hence, as a precaution, the President's power to appoint governors should be circumscribed. It is therefore recommended that, with the exception described below, when a governorship becomes vacant, the same committee previously described in connection with the selection of a Reserve Bank president, recommend three candidates to the President. The President then selects one of these candidates, and submits his name to the Senate. The exception to this relates to the chairman. To give the President his own chairman he should be allowed to select, without the intervention of the above committee, his choice for the first governorship to become vacant. He could then, with the advice and consent of the Senate, appoint his choice either as the chairman, or he could select a chairman from amongst the previous governors.

Regardless of whether or not this proposal is adopted the law describing the qualifications of the governors should be changed. Currently, the President is required to give "fair representation" to "financial, agricultural, industrial and commercial interests and geographic divisions of the country." This is an archaic remnant from the days when the Federal Reserve was considered a "banking agency." It is therefore recommended that this provision be abolished. If it is desired, for some reason, to set out legal qualifications, they should be framed in terms of familiarity with the problems of monetary policy or bank regulations.[57] Similarly, it is recommended that the prohibition of more than one appointment from each Federal Reserve District be eliminated. It is unnecessarily restrictive. A President has, in any case, a political incentive to give adequate representation to various regions.

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[56] It has frequently been suggested that the President upon inauguration should be able to appoint a new member to the Board so that in choosing a chairman he is not confined to the current governors. The recommendation made above regarding the terms of the governors would provide for this.

[57] If the earlier recommendation that the President set the goals is accepted, then the representativeness of the Board would not matter so much, since the President, and not the Board, would make the major value judgments.

The Federal Advisory Council

This leaves one other component of the Federal Reserve to be discussed, the Federal Advisory Council, which consists of one banker from each Federal Reserve District, usually an officer of a large bank. This council is purely advisory. It was set up in 1913 as a consolation prize to bankers, who were denied the control over the Board of Governors which they wanted. Despite this origin it has turned out to be a useful organization, since it gives the Board an insight into banking problems, and into business conditions in various Districts. Hence it should be kept. One might, of course, object to it because it provides the large banks with access to the Board.[58] But the large banks would have this in any case.

However, a number of prestigious critics, including the Commission on Money and Credit, former Chairman Eccles and Professor Reagan, have suggested that the Council is too narrowly constituted; that it fails to provide access to the Federal Reserve for other groups besides bankers that are powerfully affected by monetary policy.[59] And it is certainly true that the income of, say, builders depends more on monetary policy than does the income of banks.

But, rather than change the Federal Advisory Council, it would be better to set up an additional council, one which is representative of various sectors of the economy. It is therefore recommended that the Federal Reserve consider setting up such an advisory council.

Bank Supervision and Examination

Apart from its monetary policy functions the Federal Reserve is also one of several bank supervisory and examining agencies. And its supervisory tasks are growing. Not only has its control over holding companies been extended in recent years, but it has also had consumerist duties thrust upon it, e.g. supervising truth-in-lending regulations. In general, the Federal Reserve shares bank supervisory duties with the Comptroller of the Currency, the FDIC and state banking authorities. Despite substantial coordination between these agencies, the resulting picture is one of unreasonable and untidy overlapping. It allows for "competition in laxity" as various supervisory agencies strive to enlarge their share of the banking industry. (Whether or not one considers this to be desirable depends primarly on whether one thinks that banks are overregulated or underregulated at present.) In addition, there is the possibility of conflicting standards employed by various supervisory agencies. And, despite substantial coordination in examining banks there still exist some costs to this overlap.[60] On the

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[58] Moreover, the Federal Advisory Council can, unfortunately, also be used for lobbying. Professor Kane ("The Re-Politicization of the Fed," *op. cit.*, pp. 746–47) has described how the Fed used it to oppose an auditing bill. This may suggest that the FAC should be abolished. But, as Professor Kane pointed out, bankers are in any case sensitive enough to Federal Reserve pressure to become lobbyists for it. Since the Fed has great regulatory power over them they have an incentive "to score points with the Fed."

[59] See Commission on Money and Credit, *op. cit.*, p. 89; Eccles in U.S. Congr. Joint Economic Committee, *Review of the Report of the Commission on Money and Credit, Hearings, op. cit.*, p. 44; Michael Reagan in U.S. Congr. House, Committee on Banking, Currency and Housing, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, p. 1579. See also the testimony of Professor Shapiro and Nathan Goldfinger in *ibid.*, pp. 1102 & 1480.

[60] The Comptroller of the Currency regulates and examines national banks, the Federal Reserve state member banks and the FDIC state nonmember banks. The Federal Reserve also regulates and examines bank holding companies.

other hand, it does serve to diffuse power. In 1913 when monetary policy was thought of primarily as "banking policy", in the sense that maintaining a sound banking system that would make the right types of loans was of the essence of monetary policy, it was natural that the agency charged with monetary policy was also charged with bank supervisory functions. But nowadays we know better; we know that monetary policy is very different from bank supervision.

It is not surprising that a number of observers have advocated that the Federal Reserve relinquish all regulatory functions and concentrate on monetary policy. This has been advocated by Governor Robertson as well as an advisory committee to the Comptroller of the Currency.[61] And Professor Whittlesey wrote that "That clear-cut separation of monetary policy from supervision would probably be endorsed by most observers." [62] On the other hand, Professor Bach and the Commission on Money and Credit recommended that all Federal banking supervision be concentrated by housing them in the Federal Reserve.[63]

One obvious advantage of eliminating the Fed's supervisory tasks is that this would give the governors more time for their central task, making monetary policy. Some governors have complained that they are now inordinately busy. Since bank supervision takes up a substantial amount of time, one can well argue that the elimination or reduction of supervisory chores would result in a more effective monetary policy.[64] We currently expect governors to be experts in two fields, monetary policy and bank supervision. Given the immense amount of material published in each of these fields, it is questionable whether governors can "keep up" with both fields. On the other hand, former Governor Maisel has argued that time is not a serious problem, that he had sufficient time to devote to monetary policy.[65] But this may well be a minority position. Furthermore, the type of person whose cast of mind makes him an effective monetary policy maker may lack the attitudes that are needed to be an effective bank regulator.[66]

Taking away the Federal Reserve's regulatory functions *might* also make the Board work more harmoniously on monetary policy since conflicts over regulatory matters could carry over into monetary policy discussions.[67] On the other hand, one might also argue that the opposite is true, regulatory issues might give a governor a minor, and hence relatively "safe," issue on which to assert himself, and disagree with the Chairman.[68]

But apart from these rather speculative and inconclusive considerations, eliminating the Federal Reserve's supervisory functions would

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[61] See U.S. Congr. Joint Economic Committee, *Review of the Report of the Commission on Money and Credit, op. cit.*, p. 69; and Committee on Financial Institutions, *Report to the President of the United States* (Washington, D.C., 1963), p. 60. This *Report* contains an excellent discussion of the problem of overlapping bank supervisory powers.

[62] "Power and Influence in the Federal Reserve System," *Economica*, vol. 30, February 1963, p. 43.

[63] G. L. Bach, *Making Monetary and Fiscal Policy, op. cit.*, p. 231; Commission on Money and Credit, *op. cit.*, p. 174.

[64] See Commission on Money and Credit, *op. cit.*, pp. 87–88; Governor Szymczak in U.S. Congr. Joint Economic Committee, *Review of the Report of the Commission on Money and Credit, op. cit.*, p. 69.

[65] Sherman Maisel, *op. cit.*, p. 140.

[66] Cf James Knipe, *op. cit.*, p. 212.

[67] *Ibid.*, p. 212.

[68] Professor Charles Whittlesey (*op. cit.*, p. 43) pointed out that by giving the governors more time, elimination of regulatory issues might induce them to challenge the chairman more frequently on monetary policy.

probably have three other important effects. One is that it is likely to reduce the Fed's emphasis on the "quality" of credit. For example, in some recessions the Federal Reserve has limited the growth of bank reserves because it was afraid that a "sloppy money market in which banks are flush with reserves would tempt them to make unsound loans. Many economists feel that such a policy is inappropriate; the Fed should adopt an expansionary policy during a recession, and let bank management decide what loans are sound.

Second, the Fed's supervisory functions necessarily bring it into close contact with banks. The more it talks with banks about regulatory problems the greater is the danger that the attitude of private banks will permeate Federal Reserve thinking on monetary policy as well. Hence, elimination of the Fed's regulatory powers should reduce banker influence over monetary policy.

Third, it would eliminate the Federal Reserve's ability to use "armtwisting" as a tool of monetary policy. The holding company legislation has given the Fed great power to punish banks that refuse its "requests." Apparently, the Fed has used this lever in 1973 to induce banks to hold down the prime rate, etc.[69] On general political grounds one may well question whether the Federal Reserve, or any other government agency, should have such covert power over private firms when Congress has not granted it such power overtly.[70]

But a decision to take the Federal Reserve out of bank supervision creates a problem. Where else is this power to be lodged? Giving it to the FDIC may be inadvisable. As the insuring agency, the FDIC is oriented towards protecting its insurance fund by limiting the risks which banks take. Hence, giving it a larger supervisory role might reduce the ability of banks to take risks. On the other hand, if a new Federal banking agency is set up to take over all the Federal supervisory functions, then—*unless sufficient safeguards are written into the law*—this agency is likely to experience the same fate as many other regulatory agencies—capture by its industry. This has not happened to the Federal Reserve, and it would therefore be unfortunate to replace an effective regulatory agency with one that is more likely to be captured.[71]

In addition, the Federal Reserve has argued that monetary policy and bank supervision go well together because the information about banks that the Fed obtains from the examination process is useful in making monetary policy. And certainly, at times the Fed's emphasis on the health of the banking industry is useful in inhibiting the Fed in adopting excessively tight policies. However, at other times when there is a need for large interest rate fluctuations, the Fed's concern with the well-being of banks can prevent it from adopting the needed monetary policies.

Hence, it would be desirable to pass the Federal Reserve's regulatory functions on to a new agency. But this should be done only if

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[69] Edward Kane, "The Re-Politicization of the Fed," *op. cit.*, p. 748.

[70] For an argument that central banks like to use covert methods of control, see John Chant and Keith Acheson, "The Choice of Monetary Instruments and the Theory of Bureaucracy," *Public Choice*, vol. 12, Spring 1972, pp. 13–32.

[71] One *possible* explanation of why the Federal Reserve has not been captured by the banking industry is its wish to avoid giving ammunition to those who dislike its monetary policy. Two other potential explanations are that since its main function is monetary policy most of its staff does not have an industry background, and that the governors are largely concerned with questions not directly relating to the welfare of their industry.

there are adequate safeguards against capture of this new banking agency by the industry. It is therefore recommended that if such safeguards are provided, then the Fed should yield its regulatory functions to a new agency. If so, one governor should be an ex officio member of the Board of such an agency. This would provide the Fed with information about the quality of bank assets.

If such an agency is not set up one can still ease the burden on the Board while maintaining the Fed's regulatory role. This can be done under existing legislation by delegating much of the work to the Federal Reserve Banks. It is therefore recommended that, within guidelines set out by the Board, the Banks should issue advisory opinions to other regulatory agencies, pass on holding company cases and charter amendments for Edge Act corporations, etc.[72] This would *very* substantially reduce the regulatory work of the Board. And as long as the Banks act within guidelines set out by the Board there is only a small danger that their closeness to the local banking community would result in their capture by the industry.

Federal Reserve Finances

The Federal Reserve does not rely on Congressional appropriations. Instead, it meets its expenses out of its own earnings, most of which consist of interest on its portfolio of government securities. Its net earnings greatly exceed its expenses. After transferring a small amount to its surplus the Federal Reserve System turns over the bulk of its net earnings to the U.S. Treasury.[73]

The main reason for allowing the Federal Reserve to finance itself out of earnings rather than out of Congressional appropriations is that this is necessary to preserve its independence. The power to appropriate is the power to harness and control! If the Federal Reserve were subject to the appropriations process, Congressmen who object to its monetary policy could use the appropriations power to induce it to change its policy. Congress certainly has—and should have—the power to order the Federal Reserve to change policy. But if this is to be done, it should occur openly in full public view, rather than through the backdoor device of the appropriations process. Moreover, it should be done through the two banking committees rather than through the appropriations committees, who, of necessity, have less expertise in monetary policy.

A second, much less important, justification is that the Federal Reserve cannot estimate its future expenses accurately, and hence, if it were subject to appropriations, would be tempted to overbudget. If so, it would then have the further temptation to spend all the appropriated funds even if it does not need to do so.[74]

Another justification which is sometimes given is that if it had to rely on appropriations the Federal Reserve would not be able to spend

[72] It may be desirable to spell out this authority to delegate in the bank holding company legislation.

[73] In 1974 the Federal Reserve had gross earnings of $6,280 million: its current net expenses amounted to only 9 percent of its gross earnings (i.e. to $548 million). After allowing for losses on securities and foreign exchange transactions and dividend payments, the Federal Reserve placed $51 million into its surplus and transferred $5,550 million to the Treasury. *Federal Reserve Bulletin*, vol. 61, February 1975, p. A 80.

[74] See the testimony of President Bopp, in U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, p. 423.

enough on research.[75] However, this argument assumes that more should be spent on research than the elected representatives think is proper.

The Fed's freedom from the appropriation process does, however, have two disadvantages. First, government funds are spent in ways that have not been passed on in the standard democratic process. Second, the Federal Reserve can spend to build a political base. The Federal Reserve issues a large number of publications dealing with monetary policy, and while the quality of these publications is generally high, they are usually not known for their sharp criticism of the Federal Reserve. It is unlikely that Congress would appropriate all the money the Federal Reserve now spends on these publications.[76]

Nonetheless the advantages of budgetary independence substantially outweigh its disadvantages. It is therefore not surprising that a survey of monetary economists showed a two to one majority in favor of the present arrangement.[77]

But there is one aspect of Federal Reserve finances that is more subject to criticism. This is that the Federal Reserve clears checks free of charge for all banks that remit at par.[78] In 1974 this cost the Federal Reserve $64 million.[79] Originally, free clearing could be justified by the desire to bring banks into the Federal Reserve clearing network, thus eliminating the long delays in check clearing that existed under the National Banking System.[80] But this is no longer a problem. At present the best justification is that free clearing serves to keep in the System large city correspondent banks that clear checks for country banks. If, as the Federal Reserve has advocated, the reserve requirements for member and nonmember banks are made uniform, so that banks have much less of an incentive to leave the System, then free clearing should be eliminated. This would not only end an unjustified subsidy to banks, but would also allow the private sector to compete with the Fed in check clearing. And this is particularly important now that we may move into a system of electronic funds transfers that may greatly increase the Federal Reserve's clearing costs. It is therefore recommended that if a system of uniform reserve requirements is adopted, then the Federal Reserve should charge banks the full cost (or at least the long run marginal cost) of check clearing.

The Federal Reserve and the General Accounting Office

One issue that has received a great deal of Congressional attention, and has resulted in frequent *Hearings*, is the exemption of the Federal

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[75] See the statements of Henry Wallich and Donald Hester in U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance. *Compendium on Monetary Policy Guidelines and Federal Reserve Structure, op. cit.*, pp. 283 & 634.

[76] According to Professor Harry Johnson it also provides itself with a political base by giving various services to its clients. U.S. Congr. House, Committee on Banking, Currency and Housing, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, p. 1041.

[77] U.S. Congr. House Committee on Banking, Currency and Housing, *Compendium on Monetary Policy Guidelines and Federal Reserve Structure*, p. 27.

[78] A few small banks (about one percent of all banks) do not "remit at par"; that is, they deduct a service charge from the payment they make on a check presented to them.

[79] The 1974 figure was much higher, but this was heavily influenced by the cost of setting up regional check processing centers.

[80] Under the National Banking System banks tried to reduce the cost of check collection by routing checks through a correspondent bank network. This delayed the presentation of checks substantially, and hence increased the danger that by the time a check was presented for payment it could not be paid. In addition, free clearing was denied for banks not remitting at par to induce more banks to remit at par. At present this is only a trivial problem.

Reserve from GAO audits. Although the Federal Reserve was originally subject to audits by other government agencies, it was exempted from such audits by the Banking Act of 1933. Such an exemption is *usually* granted only to agencies that finance themselves primarily by fees received from the private sector, e.g. the FDIC, or the Office of the Comptroller of the Currency. There is much opposition in Congress to the Fed's exemption, and in 1975 no less than 120 Representatives sponsored a bill to require a GAO audit.[81] Compared to the question of whether the Federal Reserve is following the right monetary policy, auditing is a trivial issue. But since it has proved to be, on the one hand, a useful stick with which to beat the Federal Reserve, and on the other, a way in which the Federal Reserve can assert its independence, it has, unfortunately, received a greatly disproportionate share of Congressional attention.

Before discussing the pros and cons of a GAO audit it is necessary to clarify what such an audit is. There are three types of GAO audits. One is an audit just of financial accounts and reports, which tries to ascertain whether financial transactions meet legal requirements, and whether the financial reports are accurate. A second type of audit extends beyond this and examines the efficiency with which personnel and physical facilities are used. A third type of audit extends further "to include reviews of the results of the programs and activities of the System, including the extent to which its established objectives are being achieved.[82] This third type of audit, unlike the first two, clearly gets into policy issues, and *might* examine, for example, the Federal Reserve's policy of raising certain interest rate ceilings set under Regulation Q.[83]

Proponents of a GAO audit have argued that it is needed to prevent inefficiencies and waste. Thus, the Comptroller General has said that in a large organization like the Federal Reserve there *must* be places where the GAO can locate waste, while Professor Reagan has drawn attention to the fact that Federal Reserve offices are much more elaborate than other government offices.[84] And a *Staff Report* of the House Banking, Currency and Housing Committee has argued that there is no warrant for Federal Reserve expenditures which other government agencies are not allowed to undertake. It pointed out that at the time (1964), of the fifteen highest governmental salaries, thirteen were in the Federal Reserve.[85] Other government agencies have objected that in various disputes the Federal Reserve has an unfair advantage because it can spend more on research and on public relations than they can.[86] And Congressional Hearings have brought out a chamber of horrors of Federal Reserve expenditures, such as

[81] "House Panel Derails Bill that Requires an Audit of the Fed," *Wall Street Journal,* September 25, 1975, p. 20.

[82] Testimony of Comptroller Staats, U.S. Congr. House, Committee on Banking, Currency and Housing, *To Provide for an Audit of the Federal Reserve System by the General Accounting Office, Hearings,* 93rd Congr. 1st sess. 1973, p. 12.

[83] However, it would probably deal more with the way in which the decision was reached than with the decision itself. *Ibid.*, p. 78.

[84] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve System After Fifty Years, Hearings, op. cit.*, p. 1578; Subcommittee on Domestic Monetary Policy, *Audit of the Federal Reserve, Hearings,* 94th Congr. 1st sess., 1975, p. 173.

[85] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve System After Fifty Years, Proposals for the Improvement of the Federal Reserve. . . . , op. cit.*, pp. 91–92.

[86] See A. Jerome Clifford *op. cit.*, p. 362.

cigars for directors, baby-sitters for the children of officers, and ping-pong balls for employees.

Furthermore, advocates of a GAO audit have been skeptical of the Federal Reserve's own auditing procedures, which consist of audits both by its own auditors, as well as by CPA firms. Thus Professor Freeman has likened the idea that internal audits (and audits by accounting firms reporting to the Federal Reserve) are sufficient, to the notion that "the plaintiff should rely on defense attorney for legal advice." [87]

The Federal Reserve, on the other hand, has fought bitterly against any type of GAO audit, and, according to Professor Kane, when threatened with an auditing bill, "perhaps the first time in System history an FRB Chairman has lobbied personally on the Hill, visiting key members of the Houses Rules Committee. . . ." [88]

In its defense of the status quo the Federal Reserve has raised several points. The most important is that a GAO audit would reduce its independence. Even an audit confined to financial reports would, in the Fed's view, weaken its independence because, as President Bryant of the Atlanta Bank put it: "the power to harass is the power to destroy." [89] Rather than drawing a sharp line between the three types of GAO audits discussed above, the Federal Reserve sees any GAO audit as the beginning of a process that would chip away at its independence. Governor Mitchell put it as follows: [90]

> It is obvious that the opponents of a monetary authority with the independence the Congress has long given the Federal Reserve would view this action as the opening wedge in a series of legislative measures by which they would hope to make monetary and credit policy responsive to short-run political and economic pressures.

Further, to be effective, the Federal Reserve needs to be able to rally public opinion to its side in any dispute with Congress or the Administration. But expenditures for this purpose may well be questioned by the GAO.[91]

Second, the Federal Reserve does not consider a GAO audit appropriate for a quasi-private institution such as it believes itself to be. Thus Governor Mitchell expressed the fear that "The System's blending of public and private elements, and its balance between central oversight and regional initiative, could be endangered if audits were to be conducted by the GAO." [92]

Third, the Federal Reserve is afraid that a GAO audit may impair the confidentiality of the data on banks which it collects in its examination process, and also its dealings with foreign central banks. If the GAO is auditing the Federal Reserve, foreign central banks might find their deposits with the Fed less useful.[93]

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[87] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Monetary Policy, *Audit of the Federal Reserve, Hearings, op. cit.,* p. 270.

[88] Edward Kane, "The Re-Politicization of the Fed," *op. cit.,* p. 748.

[89] Cited in A. Jerome Clifford, *op. cit.,* p. 363.

[90] U.S. Congr. House, Committee on Banking, Currency and Housing, *To Provide for an Audit of the Federal Reserve System by the General Accounting Office, Hearings, op. cit.,* p. 106.

[91] This argument is not explicit, but can be read into, the testimony of President Swan of the San Francisco Bank (U.S. Congr. House,, Committee on Banking, Currency and Housing, *The Federal Reserve System After Fifty Years, Hearings, op. cit.,* p. 666).

[92] U.S. Congr., Committee on Banking, Currency and Housing, *To Provide for an Audit of the Federal Reserve System by the General Accounting Office, Hearings, op. cit.,* p. 106.

[93] U.S. Congr. House, Committee on Banking, Currency and Housing, *Audit of the Federal Reserve, Hearings, op. cit.,* statement of Governor Mitchell, p. 295.

Fourth, the Federal Reserve believes that a GAO audit is not needed, first because it already is heavily audited and second, because it already exercises strict budget discipline. For example, a President of the Cleveland Bank testified that his bank had lower labor costs than the Federal government.[94] And, as already mentioned, former Governor Maisel wrote that the Federal Reserve Banks are more efficient than other government agencies. In addition, the third type of GAO audit, an audit of policy, would duplicate the work of Congress, since the Federal Reserve already reports periodically to Congress on its monetary policy. For all of these reasons a GAO audit would be needless duplication, and hence a waste of money.

How valid are these arguments? The Fed's concern that an audit extending to policy decisions would reduce its independence is correct, and provides a valid argument against this type of audit.[95] But why should an audit confined to financial reports significantly reduce the Federal Reserve's independence? In opposing such an audit the Federal Reserve is fighting the battle at its frontier—and it is not at all clear that this is either good public policy or good strategy. The Fed could make a much stronger case by accepting a purely financial audit, and opposing the two other types of audits. To be sure, the Federal Reserve is afraid of drifting from one type to the others, but against this "opening wedge" argument, there is the point that its continued opposition to any GAO audit at all arouses suspicion.[96] Thus even a very sympathetic observer, Tilford Gaines, has remarked that the Fed's opposition to any GAO audit seems to be carrying the principle of the camel's nose in the tent somewhat too far.[97]

The second argument, that the Fed is a quasi-private institution, is far from persuasive. Not only does the Fed fulfill governmental functions, but the major part of its earnings result from a governmental source, the provision of money.[98] And it turns its excess earnings over to the Treasury. The private components of the System are residual appendages, and do not justify the belief that the Federal Reserve is spending private, rather than public, funds. Nor is it clear that a GAO audit would actually threaten the quasi-private components of the Fed, if for some reason it is decided to keep them.

The third argument, the need to maintain confidentiality, is also not persuasive. The GAO does audit agencies with top secret material, e.g. the Defense Department and the Atomic Energy Commission. Besides, if necessary, one could exclude from the scope of the

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[94] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *The Federal Reserve After Fifty Years, Hearings, op. cit.*, p. 195.

[95] Such an audit has been opposed, for example, by Professors Ackley, Heller, McCracken, Okun and Stein, all former chairmen of the Council of Economic Advisers. "House Panel Derails Bill that Requires an Audit of the Fed," *op. cit.*, p. 20.

[96] Thus Representative Blanchard, while himself not challenging the Federal Reserve's integrity in opposing any GAO audit, said:

> I am wondering how you can keep that integrity intact, either before the opinions of Congress or the public, if you continue to resist an audit by the GAO. . . . It seems to me that you undermine the integrity of the Federal Reserve by so resisting and opposing this bill.

U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Monetary Policy, *Audit of the Federal Reserve, Hearings, op. cit.*, p. 364.

[97] "Statement" in U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, *Compendium on Monetary Policy Guidelines and Federal Reserve Structure, op. cit.*, p. 234.

[98] Even the Fed's earnings on the reserves held by member banks can be considered government funds because these earnings can be treated as being in effect an excise tax on bank deposits.

audit the Fed's examination functions as well as its dealings with, and on behalf of, foreign central banks and governments.

Fourth, it is true that the Federal Reserve Banks do try to budget tightly (for example, using consulting firms in cost-cutting efforts), and, as far as one can tell on a *very* casual and impressionistic basis, are not wasteful. Yet it is likely that the GAO could find *some* places where costs could be cut. Moreover, the cost of a GAO audit need not not be large.[99] Hence, as an experiment, at least a one-time audit, as suggested by Professor Selden, would probably pay for itself.[1]

Thus the Federal Reserve's arguments against a financial audit—as opposed to a policy audit—are far from convincing. But there happens to be a very powerful argument against a financial audit by the GAO, one which the Fed has not stressed. This is that the horror stories brought out in various Congressional Hearings, such as the Federal Reserve buying flowers for the families of officers, and ping-pong balls for its employees, have nothing to do with an audit of financial accounts per se. These expenditures do *not* represent cases where officials undertook expenditures that were not legitimate under their agency's guidelines. They *were* legitimate under the Fed's guidelines. What is at issue therefore are the Fed's expenditure guidelines themselves. These do differ very substantially from those of other government agencies, because the Federal Reserve follows expenditure guidelines similar to those of private firms. It is this issue, whether the Federal Reserve should spend like a private firm rather than like government agencies, and not the question of a GAO audit, that Congress should focus on.

Is the Federal Reserve's adherence to private, rather than governmental, expenditure patterns justified? For reasons discussed above the existence of a quasi-private component in the Federal Reserve's formal structure does not provide such a justification. However, what *may* justify the Federal Reserve's spending like a private firm is that this *may* be more efficient than following the usual government expenditure standards. It is a general presumption that the private sector is more efficient than the government. Hence, acting like a private firm and providing amenities for officers and employees *may* serve to lower total labor costs. For example, providing directors with cigars and other perquisites may help to get more work out of them. Similarly, expenditures on recreation equipment for employees may increase their loyalty, and hence lower labor turnover. Spending a modest amount of money to make employees feel wanted may be good business.[2] Furthermore, by not abiding by civil service pay-scales the Federal Reserve saves money because it is able to pay employees in various cities different salaries depending on local labor market conditions.

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[99] The Comptroller General has testified that if the GAO is given the authority to make selective reviews, rather than to audit the whole Federal Reserve System every year, the yearly cost of an audit would be about $750,000. (U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Monetary Policy, *Audit of the Federal Reserve System, op. cit.*, pp. 170–71.) Governor Mitchell has estimated the cost of a thoroughgoing audit at $1–1.5 million (*ibid.*, p. 360).

[1] *Ibid.*, p. 209.

[2] For example, at a Congressional Hearing a Federal Reserve Bank was criticized for sending birthday gifts to employees on military service leave. But this expenditure may be well justified because it increases the probability that employees will return to the Bank when they leave military service.

But while the Federal Reserve's tendency to spend more on employee and officer welfare than other government agencies do *may* be efficient, this need not be so. For example, one reason why private firms provide luxurious offices is to impress customers with the financial solidity of the firm. The Federal Reserve hardly needs to do this.[3] Furthermore, the fact that Federal Reserve employees obtain certain benefits that are denied to other government employees may create a morale problem in other agencies. Perhaps better working conditions and benefits should be extended to all government employees, but if this is not done why should the Fed be singled out for special treatment? It may reinforce the Fed's notion that it is not a government agency.

Obviously, what is needed here is detailed empirical study. Some Federal Reserve Banks have had management consulting firms undertake cost studies. But Congress need not rely on this rather limited information. It is therefore recommended that Congress commission a private management consulting firm to evaluate the Federal Reserve's policies regarding employees and officers. While the comments of the GAO should be sought on such a study, it is probably preferable to have it done by a private firm, because the GAO is familiar primarily with government personnel practices, and not with private ones.[4]

One thing such a study should investigate is the salary structure of top officials in the System. The presidents (and even some of the first vice presidents) of the Banks receive a higher salary than the Chairman of the Board of Governors, and for that matter than the Secretary of State. In view of their relative responsibilities this is an anomaly. While it could be justified in 1913 by the argument that the Bank presidents were essentially bankers rather than government officials, the evolution of the System's functions has turned the presidents into public officials.

Until the results of such a study are available, the issue of GAO auditing should be shelved. Not only do we lack at present the information necessary to settle this issue, but these discussions about GAO auditing distract Congressional attention away from the much more pressing and important issue of whether the Federal Reserve is following the right policy.

Before leaving the topic of a GAO audit it may be useful to raise the question of why the Board allows the Banks to undertake expenditures that provide such flagrant targets for Congressional criticism. Is it a feeling that *any* expenditures which are not authorized for other government agencies would serve equally well as a target? Or is it the Fed's confidence that it has enough political power to block any reforms? Or is it perhaps a feeling that Congressional criticism is inevitable, and that it is better to be criticized for buying

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[3] An interesting issue here is the psychological make-up of the governmental and private labor forces. It *may* be the case that government employment attracts those who find security of employment a more important fringe benefit than good working conditions and employer-provided amenities, while the opposite may be true for private industry. If so, the question arises whether Federal Reserve employees are more like private, or like governmental, employees.

[4] President Hickman of the Cleveland Bank suggested that Congress have the Federal Reserve audited by a CPA firm. U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Finance, ***The Federal Reserve After Fifty Years, Hearings***, *op. cit.*, p. 192.

ping-pong balls than for policy blunders? Unfortunately, this question cannot be answered.

Federal Reserve Secrecy

To a limited extent, the Federal Reserve's opposition to a GAO audit can also be explained as a natural concomitant of central bank secrecy. By a long tradition, "the celebrants of the arcane mysteries of central banking"[5] have preserved "a certain air of charismatic obscurity about their operations."[6] "Financiers, bankers and central bankers have for a long time regarded themselves as a Pythagorean priesthood possessing the vital mysteries whose power is diminished if they are exposed to vulgar eyes. . . . It is a mythology that strikes at the root of democratic government."[7] Secrecy is one way in which a government agency can protect itself from criticism.[8] Moreover, the less the public knows about monetary policy, the more likely is it to be apathetic about it. And the greater the public's apathy, the smaller is the threat to Federal Reserve independence.[9] Yet, while the Federal Reserve *is* secretive, it should be commended, both for being less so than most foreign central banks, and for having become *much* more open in recent years.

There are several substantial advantages to reducing Federal Reserve secrecy still further. One is that the democratic ethos requires an informed electorate. A second is that economists and others could discuss monetary policy more intelligently, and could make a greater contribution to its formulation. Third, secretiveness enhances the value of specialized information to money market professionals and to investors. Those firms that can afford "Fed watchers" (who are frequently former Federal Reserve employees) gain an advantage.

The three main issues with respect to Federal Reserve secrecy are its unwillingness to clarify its economic goals and trade-offs, the five year lag in the publication of the *Minutes* and the 45 day lag in the publication of the *FOMC Record of Policy Actions*.

Although the Federal Reserve in response to House Concurrent Resolution 133 does now reveal its money growth targets, this is done so vaguely that there is less in this than meets the eye.[10] Hence although the biannual *Monetary Oversight Hearings* are a useful start they do not go far enough. The Federal Reserve should present to Congress an *Annual Report on Monetary Policy* in which it elucidates its forecasts for the next year, its trade-offs and its targets and goals.[11] This would allow Congress and the public to see to what extent the Fed's value judgements agree with their own, and (subsequently) how successful the Fed has been in reaching its targets. Obviously, this is information Congress and the public need to evaluate the Fed. It would also have the advantage that the Administration would know in considerable detail what the Fed is planning to do. This is *not* the case now.

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5 James Knipe, *op. cit.*, p. 214.
6 Kenneth Boulding, *op. cit.*, p. 11.
7 H. S. Gordon, *op. cit.*, p. 22.
8 John Chant and Keith Acheson, *op. cit.*, p. 15.
9 Since the Federal Reserve now has substantial independence, any change resulting from an aroused public opinion is more likely to reduce, than to increase, its independence.
10 See Edward Kane "New Congressional Restraints and Federal Reserve Independence" *op. cit.*, pp. 42–44.
11 The Federal Reserve does not do this in an acceptable fashion in its current *Annual Report*. See Edward Kane, "All for the Best: The Federal Reserve Board's 60th Annual Report," *American Economic Review*, vol. 64, December 1974, pp. 835–50.

Admittedly, there are some political risks in being open with the public. But, at the very least, the Federal Reserve should be as open about monetary policy as the *Economic Report of the President* is about the Administration's plans. If the Administration can run the political risks, surely the *independent* Federal Reserve can too. Such a proposal to set out targets does, of course, face the objection that monetary policy must be flexible. But this objection can be met by noting two things. First, the Fed could still change its targets in mid-year, and explain fully why it did so in the next *Report*. Second, monetary policy is in any case not so flexible if one looks, not at the speed with which policy can be changed, but at the time this policy takes to affect income. It is therefore recommended that the Federal Reserve submit an annual—or perhaps biannual—*Report on Monetary Policy* to Congress. And Congress should then hold Hearings on it.

The second issue on secrecy concerns the *Minutes* of the FOMC. The *Minutes* are currently published with a five year lag. This lag is defended by the Federal Reserve on several grounds. One is that immediate publication could be embarassing for FOMC participants, and hence might make them reluctant to speak their minds. Someone may be reluctant to advocate a policy that has immediate costs and long run benefits if his position will become known before these long run benefits appear. Furthermore, if the *Minutes* are to be published immediately, there are the dangers that participants would speak for the record, and also that the *Minutes* would become more limited, particularly as participants could discuss sensitive issues prior to the formal meeting. In addition, the FOMC sometimes discusses matters relating to foreign central banks and governments which must be kept confidential. And there is also the danger of providing information to speculators.

While most of these arguments are valid, it is not clear that they require a five year lag in publication. It is therefore recommended that the Federal Reserve should consider cutting the publication lag to, say, three years. Furthermore, it should consider making the *Minutes* comprehensive. What is published at present is not the verbatim record, but a synthesis of notes taken by several participants. However, if the Federal Reserve does publish the above discussed *Report on Monetary Policy* then the time lag in the publication of the *Minutes* and their comprehensiveness is no longer so important.

Turning to the Directive, the Federal Reserve has justified the 45 day delay in its publication by the argument that immediate publication would allow money market professionals—who could interpret the Directive—to make windfall gains at the expense of other investors. This argument is questionable. At present, money market professionals have a big advantage over others because they can infer Federal Reserve policy. It does not take them long to form a shrewd guess about what the latest Directive contains. Secrecy thus enhances the advantage which the professionals have, and also gives them an incentive to spend much effort trying to unravel Federal Reserve policy. This is a waste of resources. If the Directive were made public right away brokers and others could quickly inform investors about monetary policy changes, and hence the professionals would lose some of their comparative advantage. To be sure, the small investor usually

could not himself understand the Directive, but the free market would soon develop information channels that would explain it to him.

Admittedly, there is sometimes a serious difficulty in publishing the Directive. This is that the Directive might give a certain range for the Federal Funds rate for, say, the first week, and a different range for subsequent weeks. If the market would know this, there would be a tendency for the rate to move immediately, at least part of the way, to the range set for later weeks. Hence, in these situations there may be a technical problem in publishing the Directive. But it is recommended that when the Directive does not take this form it should be published right away.

Congressional Supervision

One very important part of our central banking structure is Congressional oversight over the Federal Reserve. The efficacy of the Federal Reserve's monetary policy depends, in part, on the efficiency of Congressional criticism. Congressional Hearings, from the Douglas and Patman *Hearings* in the early post-war years to the recent *Hearings* on the Federal Reserve's money stock targets, have done much, both to elucidate—and to affect—the conduct of monetary policy. But the Congressional oversight process does have some weaknesses. One is that Congressmen, being of necessity generalists rather than specialists in monetary policy, are at an obvious disadvantage when questioning a chairman who, not only is a specialist, but also has a large staff to help him prepare his testimony. This is particularly serious since someone selected to be chairman is likely to be highly skilled in evading troublesome questions. Second, there are few political incentives for a Congressman to acquire the expertise needed to question a Fed witness effectively.

Hence, some device is needed to reduce the gap between the expertise of Federal Reserve governors and that of the supervising Congressmen. One possibility would be to *insist* that Federal Reserve witnesses file their written statements at least 48 hours prior to the hearing.[12] The Committee staff could then contact academic and business economists and obtain their comments on technical points in the statement. In particular, they should be asked to suggest *specific* questions, and to raise quite *specific* issues. For example, if a chairman testifies that the concept of "money" is vague because there are several definitions of money, they might suggest that the Chairman be asked whether over the last ten years the growth rates on all of these definitions have been highly correlated. Admittedly, the preparation of questions on the statement by outside specialists would not solve the problem completely because a witness could omit material on which he might face embarassing questions from his written statement, and bring it up during the questioning.[13] But subjecting the written statement to outside evaluation should be of *some* help.

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[12] At present, the chairman's statement is supposed to be filed with the committees well ahead of time. But this requirement is frequently ignored. To avoid the problem of leaks, and of resulting windfall gains, the statement should be made public upon receipt.

[13] Moreover, sharp questioning while needed, might be carried too far. See Charles Whittlesey, "Congressional Hearings and the Federal Reserve," *Journal of Political Economy*, vol. 68, April 1959, pp. 187–93.

In addition, the banking and currency committees should hold extensive Hearings on the Federal Reserve *Report on Monetary Policy* suggested above, much as the Joint Economic Committee holds Hearings on the *Economic Report*.[14] Or Congress might consider a suggestion of Professor Selden and institute a formal Monetary Policy Review Board.[15]

In addition, Congressmen should show greater skepticism and not accept the Federal Reserve's statements as necessarily correct. Sometimes the emperor wears no clothes.

[14] In addition, it would be useful if the Federal Reserve staff would, from time to time, brief Congressmen and their staff on the Fed's economic forecasts, and on econometric model simulations of various policies.

[15] U.S. Congr. House, Committee on Banking, Currency and Housing, Subcommittee on Domestic Monetary Policy, *Audit of the Federal Reserve System, Hearings, op. cit.*, p. 209.

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PART 4

INTERNATIONAL BANKING

CONTENTS FOR PART 4

Foreign Bank Activities in the United States

U.S. Banks Abroad

FOREIGN BANK ACTIVITIES IN THE UNITED STATES

FOREIGN BANK ACTIVITIES IN THE UNITED STATES

1. Summary and Recommendations

At the present time, the majority of foreign bank operations in the United States are chartered and regulated at the State level, principally by State bank supervisors in New York, California, and Illinois. Federal regulators are involved only where the parent foreign bank has formed or acquired a subsidiary, not when they are operating through branches and agencies. The Bank Holding Company Act Amendments of 1970 require that the foreign bank establishing or acquiring a subsidiary obtain approval from the Federal Reserve Board before obtaining a State charter for a subsidiary bank, and conform to the provisions of that act. In most cases, foreign bank subsidiaries accept domestic deposits, obtain deposit insurance and submit to regulation and examination by the Federal Deposit Insurance Corporation. Subsidiary operations constitute, however, only about 20 percent of total foreign bank activity in the United States.

Legislation has been introduced to alter this structure by requiring that all U.S. operations of foreign banks be chartered and regulated at the Federal level. Those who support such a change do so because foreign bank operations have created a number of regulatory problems. Some of these problems relate to the fact that foreign banks contribute substantially to short-term capital flows and thus affect both the U.S. balance-of-payments position and the conduct of U.S. monetary policy. Others relate to the evasion of constraints in U.S. banking law which give foreign banks a competitive advantage over domestic banks. The rapid growth in the number of foreign bank offices and in their total U.S. assets in recent years has also raised concern that there is no national policy regarding the permissible level of foreign investment or participation in the U.S. banking system. Such concern reflects the view that the banking system exercises a key role in determining the well-being of the domestic economy.

Foreign banks operate in the United States through the following kinds of offices:

Branches

U.S. branches of foreign banks are chartered only under State law. Until recently, only New York and Massachusetts have encouraged their formation. In 1973, the Illinois law was liberalized to permit foreign banks to operate a single branch in the area of the Chicago Loop. California permits foreign bank branches, but requires that their domestic deposits be insured by the Federal Deposit Insurance Corporation. Presently such deposits are not eligible for FDIC insurance and foreign bank branches are limited to States which waive this requirement. As a substitute for Federal insurance, New York State law requires that a branch maintain dollar assets equivalent to at least 108 percent of all liabilities obtained within the

State. Of the additional 8 percent which, in effect, represents the branch's capital, 5 percent must be segregated and maintained in cash or government securities in a domestic bank within the State under a restricted deposit agreement and is subject to withdrawal only with the consent of the superintendent of banks.

The fact that branches of foreign banks are legally a part of the parent bank has led the Federal Deposit Insurance Corporation to question their eligibility for deposit insurance and to insure only the deposits of separately capitalized subsidiaries. New York imposes a separate entity provision on branches which requires that the deposits of the branch be segregated from other deposits in the parent branch network and prohibits transfers of depositors' funds through the "due to" and "due from" accounts of the branches with their parent banks. Reserve requirements and interest rate ceilings on deposits are the same for branches of foreign banks in New York as for State banks, as are examination and supervision. Limitations on loans to one borrower are, however, based on parent bank capital. The major sources of funds received by foreign branches are Certificates of Deposit (CD's), compensating balances and interbank borrowings. Few of them offer personal checking accounts. Funds are used to finance international trade, for interbank lending and for commercial and industrial loans within the United States.

Agencies

Like branches, the agencies of foreign banks are chartered under State law. The principal distinction between branches and agencies is that branches are permitted to accept domestic deposits and agencies are not. Because they are not, agencies are relatively free from extensive examination by State banking authorities, are not subject to regulation Q or to fractional reserve requirements, and are not limited in the amount of loans to individual customers. They are permitted to keep less assets against liabilities than are branches and are relatively free from requirements relating to asset composition and the choice of approved depositories. Agencies also are not subject to the separate-entity concept imposed on branches of foreign banks under New York law and are legally an integral part of the parent bank.

Agencies are permitted to make domestic loans and New York agencies have been an important source of funds for security dealers. Many agencies are active in buying and selling American securities for their parent bank, its branches and customers. They also execute a substantial volume of foreign exchange transactions for their home office in the New York market. However, like the branches of foreign banks, they are primarily engaged in financing international trade, making loans to other banks and to U.S. corporations.

Subsidiaries

Foreign banks have banking subsidiaries in the United States which are subject to State law and their deposits are insured by the FDIC. Unlike foreign bank branches, they are engaged in the full line of bank activities and not concentrated in international finance and commercial and industrial lending. Foreign banks also invest directly in non-bank U.S. businesses such as securities firms, investment banks and trusts. This gives them a competitive advantage over U.S. banks which cannot engage in a brokerage or underwriting business.

Representative Offices

Of the kinds of activity permitted to foreign banks by authorities in the various States, representative offices attract the largest number of banks. These offices are not permitted to engage in banking activities but may receive checks for forwarding to the home office and handle the signing of loan papers. Because they do not receive deposits or make loans, they are not supervised and need not even be licensed in some States. They function primarily to attract business for the parent bank and to develop correspondent relationships with American banks. Representative offices often serve, however, as a precursor for other forms of activity. They are a relatively inexpensive means of establishing a presence in a new location before opening a branch, agency or subsidiary.

Problems

The regulatory problems relating to foreign bank operations in the United States can be summarized as follows:

1. Because foreign banks can operate branches and agencies in the United States without the approval of Federal authorities, they are able to engage in the business of banking in more than one State. Domestic banks have not been able to branch across State lines under the McFadden Act.

2. Since the foreign parent bank obtains approval to conduct branch and agency operations from State authorities, they can establish or acquire interests in companies which buy and sell securities and engage in underwriting without divesting their banking operations. Thus, unlike domestic banks, they are not subject to the restraints of the Glass-Steagall Act of 1933 which separate commercial banking from investment banking and securities transactions.

3. As State chartered institutions, foreign banks' branches, agencies and subsidiaries are not subject to the same reserve requirements as are Federal Reserve member banks. State requirements in some of the States in which foreign banks are active are lower than Federal Reserve requirements. All offer advantages in terms of permitting reserves to be held as correspondent balances in other banks, and some permit a portion of banks' reserves to be invested in interest-bearing government securities. But the competitors of foreign banks in most cases are not smaller, State chartered domestic institutions who also benefit from these advantages. The U.S. offices of foreign banks enhance the ability of the parent bank to compete with large U.S. banks which are active overseas, and the arena of competition for these offices extends far beyond the confines of the State.

The large U.S. banks with whom the foreign banks compete are members of the Federal Reserve System and subject to its reserve requirements on domestic operations. Thus, foreign banks operate in the United States with an advantage which U.S. banks do not have when they operate overseas. No foreign country permits the foreign branches and subsidiaries of U.S. banks to hold lower reserve requirements against domestic deposits than are required of its own banks.

4. U.S. banks invest in joint ventures with foreign banks active in the United States, often in the same State and city in which the U.S. bank is domiciled. This practice blunts the thrust of U.S. anti-trust law and permits the introduction of multinational banking cartels into the United States—allowing, in effect, U.S. banks to do indirectly what they legally cannot do directly.

5. Agencies of foreign banks are primarily engaged in an international banking business, but the regulatory framework of States in which they operate gives them substantial competitive advantages over the international departments of U.S. banks or their Edge Act subsidiaries.[1] Because they cannot accept domestic deposits, agencies are not subject to reserve requirements nor to interest rate limitations nor to the same degree of surveillance as are domestic banks. But they borrow a quarter of their liabilities from domestic banks and are permitted to accept and solicit domestic deposits for transfer to their parent banks.

Agencies also can keep credit balances related to international transactions for their own account, and, again, have a competitive advantage in attracting these domestic funds because of their freedom from regulatory restriction. Given the limited degree of surveillance to which the agencies of foreign banks are subject, it is difficult to ascertain how these credit balances differ from domestic deposits or how long funds accepted for transfer to the home office are kept by the agencies and how they might be used.

6. Because the agencies and branches of foreign banks serve as sources of dollars for their parent banks' operations in the Eurodollar market and as recipients of dollar resources which the parent bank wishes to invest in the U.S. money market, they contribute substantially to short-term capital flows and impact on the U.S. balance-of-payments position. In February 1973, funds solicited in the United States and lent abroad rose by $1.2 billion (from $4.5 to $5.7 billion). This increase added to the downward pressure on the dollar overseas at the time. Similarly, in the spring of 1974, foreign banks in the United States reported a $3.6 billion or 25 percent increase in claims on foreigners between April 24 and June 30. Almost half of the increase was listed as due from their parent banks and related institutions overseas. This increase in claims was offset by a $2 billion (or 10.4 percent) increase in liabilities to foreigners. Thus the net outflow of funds through these banks was $1.6 billion in the two-month period. The magnitude of such dollar transfers, especially over short periods of time, can thwart U.S. monetary policy domestically and internationally.

7. The assets/liabilities of foreign banks in the United States rose nearly 20 percent in the two-month period between April 24 and June 30, 1974—from $38,998 billion to $48,127 billion. Their assets rose another $2 billion by the end of July but dropped back $2 billion the following month. As this pattern indicates, the operations of foreign banks are of a very volatile nature. The fact that foreign banks obtain between 20 and 23 percent of their liabilities from commercial banks in the United States, and loan about 17 percent of their funds to banks in foreign countries, and that a substantial amount of their liabilities are obtained in the Federal funds market means that they have an impact on financial markets out of proportion to the size of their assets. Given the significance of their operations for both domestic and international money markets, lack of adequate information on their activities and the inability to influence these activities by the Federal Reserve complicates the implementation of monetary policy.

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[1] Edge Act Corporations are international banking and investment subsidiaries of U.S. banks. They were authorized by an amendment to the Federal Reserve Act (section 25a) sponsored by Senator Walter Edge in 1919. Edge Act Corporations are chartered and regulated by the Federal Reserve Board, are subject to limitations on liabilities and on loans to one borrower. They can accept domestic deposits only if related to international transactions.

Recommendations

Because the recommendations which are an outgrowth of this study will be discussed subsequently in detail, the following brief summary is offered here:

1. Eliminate competitive advantages enjoyed by foreign banks by requiring that banking operations which they conduct in the United States conform to statutes and regulations which govern the conduct of domestic banks.
2. Impose member bank reserve requirements on foreign banks and require that reserves be deposited with Federal Reserve banks.
3. Provide for chartering of foreign banks at the highest level of government (i.e., the Treasury) in order to:
   (a) Provide for consultation by all relevant authorities (Federal and State banking authorities, State Department, National Advisory Council, etc.) as needed.
   (b) Establish national guidelines regarding the permissible level of foreign investment or participation in the U.S. banking system.
4. Prohibit interlocks and joint investments between U.S. and foreign banks operating in the same banking markets in the United States.

2. Multinational Banking: An Overview

A decade ago, in 1965, the Voluntary Foreign Credit Restraint guidelines were imposed on U.S. banks in recognition of the fact that an increasing volume of credit to foreigners from a growing number of banks had become a major component in our payments deficit. Twelve banks which already had branches and subsidiaries overseas expanded their foreign operations and over the next few years a number of other U.S. banks undertook overseas operations for the first time with the blessing and encouragement of the regulatory authorities. The rationale was that funds obtained overseas and loaned to foreign customers would have no effect on American credit markets or the U.S. payments position.

In 1969 U.S. authorities took note that U.S. credit markets were not so isolated from the overseas operations of U.S. banks as had been thought. Some $14 billion Eurodollars swept into New York in a very short period of time as banks borrowed from their foreign branches to get around the Fed's tight money policies. The lion's share of those funds were channeled to larger corporations and the result was that it took longer to cool the economy. As usual during periods of tight money, non-corporate sectors such as housing, consumers, local governments and small business suffered disproportionately. This time, however, their sufferings were prolonged by the continuing infusion of Eurodollars into the treasuries of larger corporations through the multinational banks. The U.S. economy experienced simultaneously skyrocketing interest rates, unemployment and inflation—a new combination of indicators which was termed stagflation.

In addition to these concerns, the Federal Reserve also had to contend with what would happen to the balance of payments when U.S. interest rates dropped and that $14 billion flowed off in search of more lucrative markets. It responded quickly by imposing reserve requirements on new borrowings from overseas branches and by providing for reasonably gradual repayments of the $14 billion already borrowed. Meanwhile, the 1969 experience demonstrated within the U.S. economy as had already been demonstrated in the economies of other developed countries, that Eurodollars could impede or even reverse efforts to impose appropriate domestic monetary policies.

What is a Eurodollar? Obviously it is not a piece of paper which the German or French housewife uses interchangeably with marks or francs to buy groceries. A Eurodollar is usually defined as a dollar which is deposited in a bank outside the United States and Eurocurrency as any currency which is on deposit outside the country of origin. The significant characteristic of the Eurodollar or Eurocurrency market is that is has freed credit creation from the confines of national capital markets and national banking systems. Assume, for example, that Eurodollars are loaned by a bank in Nassau to a corporation in Germany which in turn converts the dollars into marks in order to spend the funds domestically.

These transactions present the German Central Bank with two choices: It can passively swap marks for dollars with the corporations, thus swelling the German money supply, or it can refuse to swap which will require that the German corporation induce private holders of marks to trade their marks for the corporation's dollars, thus forcing a change in the dollar-mark exchange rate. In either case, the German economy has been affected, either the money supply rises or the mark appreciates. Thus, the existence of the Eurodollar market has reduced the ability of the central bank to control domestic financial markets.

If it agrees to permit Eurodollars to flow freely across its borders, i.e., swap to domestic currency for dollars, a central bank can only maintain monetary control by adjusting the volume of funds which is under its control to compensate for the inflow-outflow. This is a more difficult task than if it were the sole creator of the money supply and may lose some ability to allocate credit if this is one of its objectives. In any event, to be successful in making adjustments to Eurodollar flows, a central bank needs accurate and up-to-date information. Currently such information is not available.[1]

A number of devices have been used to protect the domestic money supply in developed countries from unwelcome inflationary and deflationary effects of Eurocurrency flows. They have had varying degrees of success. None of them, however, has dealt with the growth of the Eurocurrency money supply. Professor Milton Friedman observed in 1969 that the fractional reserve system functions as a credit multiplier in the Eurobanking system as in any national banking system and that U.S. payments deficits, while responsible for initiating the Eurodollar pool, could not account for its immense growth.[2] An increase of $20 billion in the dollar liabilities of foreign branches of U.S. banks to foreigners in 1973—the year of the U.S. payments surplus—is evidence of the self-generating powers of this international money system.

There are no official figures on the size of the Eurodollar pool. A 1973 Senate Finance Committee report on multinational corporations estimated that short-term assets in international money markets totaled $268 billion in 1971. This was equal to nearly 60 percent of the U.S. money stock—currency, demand deposits and time deposits at commercial banks (excluding large CD's)—which totaled $465 billion. These private short-term assets in international money markets were more than three times the reserves of industrial countries—$88.5 billion as defined by the IMF at the end of 1971—and more than twice as large as total world reserves of $122 billion. Some 71 percent of these assets, $190 billion, were controlled by U.S. multinational corporations and banks and their overseas affiliates. The U.S. banks and their overseas branches held $74.4 billion or 28 percent of the total.

The 1973 Economic Report of the President stated that the total volume of dollars held by foreigners as balances in both American and European banks on December 31, 1972 was $150 billion. Morgan Guaranty Trust Company estimates that this figure—the Eurodollar component of the Eurocurrency market—had grown to $255

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[1] Efforts are only now being initiated by the IMF, OECD and others to obtain information on specific kinds of Eurodollar loans.

[2] Milton Friedman, "The Eurodollar Market: Some First Principles," *Banking Markets and Financial Institutions*, Gies and Apilado, editors, Homewood, Ill., Richard D. Irwin, Inc., 1971.

billion by the end of 1974 and that the total gross Eurocurrency Market had risen to $310 billion. The activities of foreign branches of U.S. banks contributed significantly to that increase. Their total Eurodollar and foreign currency liabilities rose 29.5 percent in 1971, 30 percent in 1972 and 53 percent in 1973, and 24.6 percent in 1974. It is estimated that foreign branches of U.S. banks hold around 40 percent of gross Eurocurrency liabilities.

The implications of this growth are read somewhat differently by observers of the multinational scene. There are those who argue that the creation and expansion of the Eurodollar market is responsible for the extraordinary increase in international trade and investment and thus for the substantial rise in world prosperity over the last decade. Others argue that the price which has been paid for increased trade and prosperity has been a loss of sovereignty by governments to the private international financial sector with the result that economic events, both domestic and international, are determined less by public policy and more by private interests. Most recently the argument has been made that unrestrained money creation in the Eurodollar market as central banks attempt to stabilize the exchange rate for their domestic currencies has contributed to world-wide inflation in the same way that excess money creation by the Fed had fueled inflation in the U.S. market. There would appear to be some truth in all three observations.

One of the major problems posed by this international money supply relates to monetary control. There is no counter-cyclical mechanism in the Eurocurrency market. Moreover, counter-cyclical measures employed within national economies act to enforce a cyclical pattern of events when individual countries attempt to stabilize their exchange rates. Tight money policies draw Eurocurrency funds into domestic markets in the form of loans. Monetary ease induces an outflow of domestic funds which become Eurocurrency deposits. In either case, there is an addition to the Eurocurrency money supply. The growth of the Eurocurrency money supply has contributed substantially to world inflation on a scale which would have been unthinkable 10 years ago. Then it was thought that we had attained a degree of monetary sophistication which made boom-and-bust cycles a thing of the past. Now our ability to deal with such events seems less certain.

In dealing with the problem of international inflation, it has become necessary that policy makers focus as much on the structure and regulation of international banking as on international monetary reform. Floating exchange rates have solved many of the problems relating to adjustments between nations and have curtailed a particularly virulent form of currency speculation which fueled increases in the Eurocurrency money supply. But floating exchange rates do not act otherwise to inhibit its rate of growth. The solution appears to lie with the tools of monetary policy as applied to banking systems in national economies—i.e., reserve requirements and limitations on assets and liabilities. Central banks have attempted to limit fluctuations in exchange rates and in the process have given up some degree of control over their domestic money supplies.

In connection with such a solution the question arises as to who will impose these monetary controls. It has been suggested that the IMF be turned into a world central bank with precisely those powers.

It might also be possible to do the job through the existing structure of national central banks working cooperatively and assuming responsibility both for international activities undertaken by their own banks and for activities of international banks within their borders. Such an approach is needed not only because of the problems which have arisen as a result of international credit creation but because international banking poses a threat to the structure and soundness of domestic banking systems.

On June 30, 1975, there were 14,573 insured commercial banks in the United States with aggregate assets of $930.7 billion. Of these banks, 128 had overseas branches with $162.3 billion of assets. Thus, 15 percent of the combined total of foreign and domestic assets held by insured U.S. banks were held outside the United States and outside Federal Reserve control. Moreover, about 75 percent of these foreign assets are held in London, Nassau, Cayman Islands and other international financial centers and are free from control by any central bank. They are not subject to reserve requirements or time or interest rate limitations on deposits. Branches in these locations constitute unregulated portions of a given parent bank's operations. Nevertheless, foreign branches of U.S. banks are legally an integral part of the parent bank and rely ultimately on its resources. In the event of a liquidity crisis in the Eurodollar market, foreign branches will call on resources of domestic parent banks who will, in turn, borrow from the Federal Reserve as lender of last resort. Therefore, unregulated operations of U.S. banks in the Eurocurrency market must be dealt with as an American banking problem.

Not all unregulated international banking operations take place in London, Nassau and the Cayman Islands. They also take place in Panama, Hong Kong, Singapore and, more important, in New York, Chicago, Los Angeles and San Francisco. In these four U.S. cities, agencies and branches of foreign banks controlling some $50 billion in assets conduct an international business which differs very little from that of their parent banks' London branches or the London or Nassau branches of U.S. banks.

3. The Foreign Operations of U.S. Banks and U.S. Operations of Foreign Banks: A Brief Comparison

Admittedly, the amount of unregulated laissez faire international banking which takes place in the United States is small compared with such activity world-wide. But the U.S. activities of foreign banks do take place in the context of international banking as a whole rather than as an isolated phenomenon, and no discussion of international banking would be complete without acknowledgement of the contributions of American banks to the present state of the art. It is true that a number of foreign banks have been active internationally for a much longer period, but their activities until recently have been confined to specific trading areas. The developments of the last decade—the creation of international currencies and of major financial centers in such unlikely places as the Cayman Islands, the establishment of global banking networks and of consortia of major banks from several countries—have either been initiated or made possible by U.S. banks. Foreign banks were initially overtaken by these developments and have only moved to meet the competition very recently. But their expansion in turn has been almost as dramatic as that of the American banks before, and the growth of international banking within the United States as a result of the new facilities they are establishing would seem to offer the main event on which attention will focus in the immediate future.

At the moment, however, and in view of the extraordinary level of activity of U.S. banks overseas, the fact that growing interest by Americans in multinational banking should focus on foreign banks in the United States may appear remarkable to more internationally oriented observors in other developed nations. The most obvious explanation for this is that these developments have occurred outside the United States for the most part. As noted, the Voluntary Foreign Credit Restraint program discouraged home office loans of domestic funds to foreigners and encouraged the offshore activities of U.S. banks. Thus, Americans who are not themselves participants in international markets are only dimly aware of the growing importance of multinational banks and corporations to the U.S. economy, and the message of its importance is being brought to them on the incoming tide—by the inflow of foreign banks and corporations into the United States in sufficient numbers to be visible.

As Table 1 indicates, there is a substantial difference between the branch and agency assets of foreign banks in the United States and those of U.S. banks overseas. But these differences are only a part of the total picture of international banking since U.S. banks have less than half the total foreign bank assets in London and since banks from a number of countries have branches in the Bahamas and Cayman Islands, Panama, Singapore and Luxembourg as well as the principal cities of other major countries. It is estimated that U.S. banks have only about 40 percent of total business in the Eurodollar market. Their share of total external banking activities may be less given the historic involvement of European banks in third world countries.

Meanwhile, other differences should be noted. American banks built up substantial branch assets in Europe before banks from continental Europe entered the United States in sufficient numbers or with sufficient resources to make an impact, and this is reflected in the fact that U.S. banks have more than twice the assets in their European branches than banks from those areas have here. But those banks have a greater potential for growth in the United States than do U.S. banks in Europe under current legal and regulatory climates. Exchange controls, restrictions on sources and uses of funds and other limitations have hampered the growth of U.S. branches in European countries other than the United Kingdom and Luxembourg. It should also be noted that Japanese banks have twice the assets in branches and agencies in the United States than U.S. banks have in Japan where entry is limited. Canadian law actually prohibits foreign banks from establishing branches in Canada although Canadian banks have substantial branch and agency assets in the United States, London and elsewhere.

As these figures indicate, there is not really that much difference between the activity of foreign banks and U.S. banks in international markets.[1] Foreign banks have roughly the same level of operations in the United States that U.S. banks have in other developed countries except the United Kingdom—more than in some and less than in others. The bulk of the foreign branch activity of U.S. banks is carried on in reserve-free and unregulated banking markets in London (44 percent), the Bahamas and the Cayman Islands (25 percent), Luxembourg, Panama and Singapore. Aggregate assets in these countries are $124.3 billion or 75 percent of total foreign branch assets of U.S. banks. As this analysis suggests, the threat of retaliation against U.S. banks by developed countries if U.S. law governing foreign banks is changed should not be viewed as a major issue. While the attitude of the United Kingdom toward U.S. and other foreign banks is and will continue to be important in shaping international banking, the British are not likely to expel American banks because laws are tightened when they already tolerate banks from countries like Japan that have far tighter entry and regulatory requirements than current U.S. proposals have suggested.

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[1] Assets of subsidiaries have not been included in this comparison since subsidiaries are not legally part of the parent bank but rather part of the banking or financial system of the country in which they are located and subject to its laws. Commercial bank and investment company subsidiaries owned by foreign banks have total assets of $13.5 billion in the United States. Foreign subsidiaries of U.S. banks (commercial banks, finance, leasing and other companies) have assets of approximately $23.2 billion. A breakdown of the assets of these subsidiaries by geographic location is not available to the Committee. The assets of the numerous affiliates of U.S. banks also are not available.

TABLE 1.—BRANCH ASSETS OF FOREIGN BANKS IN UNITED STATES FROM SELECTED COUNTRIES AND AREAS AND U.S. BANKS OVERSEAS IN SELECTED COUNTRIES AND AREAS, 1975

[In millions of dollars]

Country	Foreign banks in United States [1]	U.S. banks overseas [2]
United Kingdom	3,090	72,455
Continental Europe	11,463	23,314
Luxembourg		1,424
Japan	19,762	10,341
Canada	6,049	
Bahamas		35,678
Cayman Islands		5,595
Other countries	2,635	16,677
Total	42,999	165,484

[1] Data are for September 1975 for branches and agencies.
[2] Data are for August 1975.

Source: Federal Reserve Board; compiled by committee staff.

Meanwhile at year-end 1974 there were 78 foreign banks engaged in banking operations in the United States. Thirteen additional foreign banks were engaged only in securities operations through subsidiaries or affiliations with investment banking companies, and another 72 foreign banks had only representative offices.[2] Thus, 163 foreign banks have some form of activity or representation in the United States. The 78 banks which are engaged in banking operations have some 180 U.S. offices and on June 30, 1975 reported total U.S. assets of $57.3 billion. Thus, 78 foreign banks hold slightly less than 6½ percent of total domestic U.S. bank assets. This compares with a total of $7 billion of assets held by the U.S. offices of foreign banks in 1965.

As the tables in Appendix A indicate, Japanese banks hold about 66 percent of total agency assets in New York and California. In California they have almost 80 percent of the total with banks from other far-eastern countries accounting for less than 2 percent and Latin America represented by only 2 banks, for less than 1 percent. Agencies of Canadian banks are the next largest group from a single country. In New York they hold 36 percent of total assets but are less important in California.

In New York European banks dominate foreign branches but have virtually ignored the agency form of operation. In California, however, agencies of 8 European banks have aggregate assets of $874 million or 11 percent of the total for California. European banks as a group have almost 85 percent of the total assets of New York branches of foreign banks. While no single country is dominant, 4 banks from England have about a quarter of the European assets and 2 French banks have approximately the same amount.

Among subsidiaries, the Japanese banks hold more assets than banks from any other country with British banks second. Banks from Europe have only 2 more subsidiaries than do the Japanese and less than $100 million more in assets.

[2] See Appendix A.

Most of the foreign bank activities in the United States are conducted by very large banks. Forty-seven—or approximately three-fifths—of the 78 banks engaged in banking activities are among the top 100 banks in the Free World by size of deposits. The fact that only 18 U.S. banks are among the top 100 gives some indication of the competitive potential of these giants. Another indication is the fact that 4 U.S. subsidiaries of foreign banks—Bank of Tokyo Trust Company of New York, Bank of Tokyo of California, European-American Banking Corporation and Sumitomo Bank of California—were among the top 500 banks in the world at the end of 1973. In June 1975, the Bank of Tokyo held $6.5 billion of assets in its U.S. offices. Fourteen other foreign banks held more than $1 billion of assets in the United States (see Table 2) and 10 other foreign banks had between $500 million and $1 billion of U.S. assets. About 75 percent of foreign banking operations are handled currently by these 25 banks. But there are another 25 or so banks already active in the United States which have the resources to become major competitors in American banking markets.

TABLE 2.—FOREIGN BANKS WITH TOTAL U.S. ASSETS OVER $1,000,000,000

[Where they would rank among U.S. banks if their total U.S. assets were combined]

	Total U.S. assets [1] (thousands)	Hypothetical U.S. bank [2]
Bank of Tokyo	$6,510,263	20
European American Group	3,517,480	29
Credit Lyonnais, Paris	2,570,053	47
Royal Bank of Canada	2,111,186	50
Sumitomo Bank, Japan	2,061,471	51
Barclays Group, London	2,054,911	53
Lloyds Bank, Ltd., London	1,993,419	57
Swiss Bank Corp	1,990,517	58
Sanwa Bank, Osaka	1,741,952	66
Fuji Bank, Tokyo	1,636,924	71
Mitsubishi Bank, Tokyo	1,360,977	78
Dai-Ichi Kangyo Bank, Tokyo	1,354,942	79
Toronto Dominion Bank	1,274,686	86
Tokai Bank, Japan	1,267,100	87
Bank of Montreal	1,053,845	112
Total assets	[3] 32,499,726	

[1] Assets for New York, California, and Illinois, June 30, 1975.
[2] U.S. banks ranked by assets, Dec. 31, 1975.
[3] Total assets of $1,000,000,000 foreign banks were $28,267,925 on June 30, 1974.

Source: State banking departments, American Banker; compiled by committee staff.

4. State Laws and the Structure of Foreign Bank Activities

Nine States have laws permitting some form of foreign banking activity.[1] Some States specifically prohibit such activity, others do so implicitly,[2] but the majority have taken no statutory position. Foreign banks are not specifically prohibited from owning or controlling national banks but the provisions of the National Banking Act require that the directors of such banks be U.S. citizens and local residents, and prescribe some limitation on lending in relation to the amount of equity capital invested by foreign owners. As a result, the formation or acquisition of national banks by foreign banking institutions has not been attractive though there are several instances of investments in national banks by foreign individuals.[3] Purchase of a controlling interest in a U.S. bank by a foreign bank requires approval of the Federal Reserve Board and subjects the purchasing bank to the requirements of the Bank Holding Company Act Amendments of 1970. Purchase of a controlling interest by a foreign individual is currently not covered by the Bank Holding Company Act and does not require Federal Reserve Board approval.

The bulk of foreign banking activity is concentrated in New York, which has approximately 60 percent of total offices and 75 percent of total foreign banking assets. California is second in terms of both foreign bank offices and assets and also in terms of the length of time in which foreign banks have been active in the State. The Illinois branches have all been established since the law was liberalized in the fall of 1973.

While there has always been some degree of foreign banking activity in the United States, the level has been relatively unimportant until recent times. As noted elsewhere, total assets of foreign banks were $7 billion in 1965 and are now in excess of $60 billion. Some of the impetus for this growth has been due to the liberalization of State laws.

Foreign banks were first permitted to establish branches in New York in 1961 as a result of legislation supported by First National City Bank and Chase Manhattan Bank. California also liberalized its laws to permit foreign branches despite opposition from its banking authorities, but a provision was added requiring that the branches be approved by the FDIC for deposit insurance. Since they are not currently eligible for insurance, the California branches cannot accept domestic deposits. Thus their activities are similar to those of the

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[1] States with statutes dealing with permissible foreign bank activities are Alaska, California, Hawaii, Illinois, Massachusetts, Missouri, New York, Oregon and Washington.

[2] States which are closed to foreign banks are Connecticut, Florida, Georgia, Kentucky, Maryland, Mississippi, New Jersey and Ohio. In states which limit or prohibit branching (such as Pennsylvania and Texas) foreign bank branches are automatically excluded.

[3] Michele Sindona owned 22 percent of Franklin New York Corporation, holding company for Franklin National Bank prior to its acquisition by European-American Bank and Trust Co. in October 1974, through a personal holding company, Fasco International, and was a director of Franklin's holding company but not of the bank. Edmund J. Safra owns a majority of the shares of Republic National Bank of New York through Trade Development Bank of Geneva which he controls. Mr. Safra is an honorary director of the bank. Other examples are Adrian Khashoggi who owns a controlling interest in Security National Bank, Walnut Creek, California and Ghaith R. Pharoan who recently purchased a controlling interest in Bank of the Commonwealth, Detroit.

New York agencies and they are usually referred to as agencies. California permits foreign banks to establish both subsidiary and agency operations. New York also permits the establishment of either branches or agencies (but not both) as well as subsidiaries. Canadian banks, however, do not have this choice and must operate through agencies and subsidiaries. Since U.S. banks are not permitted to establish branches in Canada, Canadian banks cannot meet the requirement for reciprocity under the New York law.

As noted above, Illinois now permits foreign banks to establish a single branch in the area of the Chicago Loop. Subsidiaries are subject to the prohibitions against branching under Illinois law. Foreign banks in Oregon are not permitted to engage in fiduciary activities but are otherwise permitted to operate on the same basis as domestic banks if deposits are insured by the FDIC. Washington State is in the process of liberalizing its laws to permit entry for foreign banks other than the two which are currently operating under a grandfather clause. Massachusetts has for many years permitted foreign banks to establish branches in the State but has only recently received its first application. Alaska and Hawaii permit some forms of foreign bank activity but so far Alaska has not proved attractive. Finally, Puerto Rico and the Virgin Islands are open to branches and subsidiaries of both U.S. and foreign banks.

Table 3 provides a geographic breakdown of foreign bank activities in the United States by type of organization and table 4 gives a breakdown of assets by States for New York, California, and Illinois.[4] As these tables indicate, foreign bank activities are concentrated in New York, California, and Illinois with the bulk of activity in New York. They also indicate that the organizational form preferred by foreign banks is the branch or agency which can operate as part of the parent bank network. Thus one can infer that the various liberalizations of State law since 1961 have contributed to the growth of foreign banking activities.

[4] Additional tables in Appendix A list assets by country or area in which the home office of the foreign bank is located and provide a breakdown of assets by type of operation and by State.

TABLE 3.—GEOGRAPHIC DISTRIBUTION OF FOREIGN BANKING ACTIVITIES IN THE UNITED STATES BY TYPE OF ORGANIZATION

State	Branches		Agencies		Banking subsidiaries and affiliates		Securities subsidiaries and affiliates		Representative offices		Total offices
	Banks	Branches	Banks	Agencies	Banks	Affiliates and subsidiaries	Banks	Affiliates and subsidiaries	Banks	Offices	
California			31	32	12	13			21	22	67
District of Columbia									4	4	4
Florida					1	1					1
Hawaii			1	1	1	1					2
Illinois	25	19			3	3			13	13	35
Massachusetts	1	1									1
New York	29	48	33	33	18	[1] 18	36	[2] 20	91	91	210
Oregon	2	2									2
Texas									6	6	6
U.S. Virgin Islands	3	7									7
Washington	1	1	1	1							2
Total		78		67		36		20		136	339

[1] Includes 3 New York investment companies.
[2] Several New York securities affiliates have branch offices in California, Illinois, and Massachusetts.

Source: Conference of State Bank Supervisors; American Banker. Data are for June 30, 1974, except Illinois which is for Dec. 31, 1974.

TABLE 4.—FOREIGN BANKING ASSETS IN NEW YORK, CALIFORNIA, AND ILLINOIS, BY TYPE OF ORGANIZATION, JUNE 30, 1975

State	Agencies		Branches		Banking Subsidiaries		Total	
	Amount	Percent of total assets	Amount	Percent of total assets	Amount	Percent of total assets	Amount	Percent of total assets
New York	$16,887,644,000	29.5	$13,138,196,000	23.0	[1] $13,051,338,000	22.8	$43,177,178,000	75.5
California	8,285,640,000	14.5			4,489,007,000	7.8	12,774,647,000	22.3
Illinois			1,018,148,000	1.8	225,975,700	.4	1,274,123,700	2.2
Total	25,173,284,000	44.0	14,156,344,000	24.7	17,796,320,700	31.1	57,225,948,700	100.0

[1] This includes the assets of 3 New York State investment companies owned by foreign banks and regulated by the New York State Banking Department outside Federal Reserve authority under the Bank Holding Company Act. The assets of foreign bank subsidiaries in New York which are covered under the BHC Act total $5,772,403,000. Thus, foreign bank assets in these 3 States which are covered and subject to Federal regulation (Federal Reserve and FDIC) total $10,517,385,000, or 21.1 percent of total assets.

Source: State banking departments.

5. Competitive Advantages Enjoyed by Foreign Banks Operating in the United States

Because foreign banks are currently chartered under State law, they have certain advantages which domestic banks operating in the United States do not share. Foreign banks can obtain charters to conduct full-service banking operations in more than one State. There are now 48 foreign banks with multi-State operations. (See table 5.) Of these, 21 are engaged in banking in 3 States, four others—Barclays Bank, Canadian Imperial Bank of Commerce, the Hong Kong and Shanghai Banking Corp., and Sumitomo Bank—have banking operations in 4 States and Bank of Tokyo has operations in 5 States. Banks chartered in the United States under Federal or State law can only operate in one State.

Foreign banks also can evade the prohibitions of Glass-Steagall against simultaneous engaging in securities operations and commercial banking if they form agencies (or branches) and do not establish banking subsidiaries. (See table 6.) When Banco di Roma applied to establish a subsidiary in Chicago in 1972, it was required by the Federal Reserve Board to agree to divest its one-third interest in an investment banking subsidiary in New York. Banco di Roma argued that had the State of Illinois permitted foreign banks to establish branches as do New York, California and Massachusetts, it could have conducted the same form of banking business and retained its securities affiliate. Subsequently, Illinois did change its law and now permits foreign banks to open branch offices.

Currently 25 foreign banks conduct commercial banking operations through agencies and branches while holding an interest in subsidiaries or affiliates which deal in securities. Of these, 10 are Japanese banks which hold less than 10 percent in investment banking affiliates with offices in the United States. Some of the Japanese banks, however, hold a minority interest in more than one such affiliate. Further, agencies and investment company affiliates of foreign banks are permitted to deal in securities but not to underwrite under New York State law. Whether these companies are substantially involved in the securities business as well as banking is not known. But the European banks which have investment subsidiaries as well as banking offices would be in violation of the Glass-Steagall Act if their operations were required to conform to existing Federal laws and regulations.

The competitive advantages enjoyed by foreign banks in being able to operate across State lines and to have interests in investment banking, commercial banking and securities firms is responsible for an increase in support for Federal chartering and regulation of their activities. A few bankers have expressed the opinion that these

competitive advantages should result in similar advantages for domestic institutions—that rather than dismantle and restrict the multi-State operations of foreign banks, the regulatory authorities might propose that Congress open the door for nationwide branching by domestic banks and amend the Glass-Steagall Act to permit commercial banks to deal in securities. But the size and scope of foreign bank activities—aside from those of a few very large banks—does not yet appear to rule out the consideration of divestiture as a reasonable course of action.

Another major concern relates to the fact that the U.S. offices of foreign banks are not subject to the same reserve requirements as are Federal Reserve member banks and that aside from the four subsidiaries which are members of the System, are not required to hold their reserves as non-interest bearing deposits with the Fed. As of March 20, 1973, reserve requirements for State chartered banks (domestic and foreign) in New York were 1 percent less than Federal Reserve requirements. In California requirements are the same as those for Federal Reserve member banks but State chartered banks may maintain 80 percent of their reserves against time deposits in interest bearing U.S. securities rather than as vault cash or demand balances in other banks. Illinois imposes no reserve requirements on either demand or time deposits of State banks, but does require the branches of foreign banks to maintain the same level of reserves as do State member banks.

Given the size of the institutions of which the U.S. branches and agencies of foreign banks are a part and the resources available to them, having lower reserve requirements than do large domestic banks in U.S. money markets can constitute a substantial competitive edge. More important, however, is the fact that the absence of control over the reserves of foreign banks' U.S. offices creates problems in implementing monetary policy.

TABLE 5.—FOREIGN BANKS WITH BANKING OFFICES IN MORE THAN ONE STATE

JUNE 30, 1975

Parent bank	Deposits (millions)	World rank	U.S. bank operations: Branch	Agency	Subsidiary [1]	U.S. assets in New York, Illinois and California (thousands)
Algemene Bank Nederland	$12,694	47	New York, Illinois	California		$832,923
Banca Commerciale Italiana	17,701	25	do	do		939,699
Banco di Roma	12,196	52	New York	do	Illinois	315,662
Banco do Brazil	15,515	31	do	California (2)		581,866
Banco Nacional de Mexico	1,900	225		New York, California		8,011
Banco Real, Sao Paulo	609	524	New York	California		75,204
Bank Leumi le-Israel	5,919	96	Illinois	New York	New York	22,313
Bank of Montreal	16,900	26		New York, California	New York, California	1,053,845
Bank of Nova Scotia	12,307	51	Puerto Rico (3), Virgin Islands (5).	do	New York	910,472
Bank of Tokyo	15,314	33	Oregon, Washington	New York, California (2)	New York (4), California (22)	6,510,263
Banque Nationale de Paris	34,230	4	Illinois	California	California, New York	600,530
Barclay's Group, London	29,263	6	New York (2), Illinois, Massachusetts, Virgin Islands.	do	New York (24), California (37)	2,054,911
Canadian Imperial Bank of Commerce	18,758	21	Oregon, Washington	New York, California	New York, California (19)	1,005,350
Commerzbank, Duesseldorf	17,338	27	New York, Illinois			700,511
Companie Financiere de Suez [2]	3,872		do			105,538
Credit Lyonnais, Paris	28,500	8	do	California		2,570,053
Dai-Ichi Kangyo Bank, Tokyo	23,046	11		New York, California	Illinois	1,354,942
Daiwa Bank, Osaka	12,487	48		do		493,131
Dresdner Bank, Frankfurt	24,063	10	New York, Illinois	California		403,288
European-American Group [3]			Illinois	California (2)	New York (106) New York	3,517,480
Fuji Bank, Tokyo	20,181	17		New York, California	New York	1,636,924
Hokkaido Takushoku Bank, Japan	5,904	97		do		225,610
Hong Kong & Shanghai Banking Corp	7,297	77	New York, Illinois, Washington	California	California (9)	256,588
Industrial Bank of Japan	18,136	22	Illinois	New York		944,768
Korea Exchange Bank			do	New York, California	California	162,414
Kyowa Bank, Tokyo	9,820	62		do		514,321
Lloyds Bank Ltd., London	19,248	19	New York, Illinois		California (94)	1,993,419
Mitsubishi Bank, Tokyo	19,058	20		New York, California	California (3)	1,360,977
Mitsui Bank, Tokyo	13,269	42		do	California	996,980
National Bank of Greece	3,787	120	Illinois		New York (2)	234,469
National Westminster Bank, London	28,900	7	New York, Illinois	California		496,307
Philippine National Bank	936	389	New York	California, Hawaii		97,495
Royal Bank of Canada	20,646	15	Puerto Rico (5), Virgin Islands	New York, California	New York	2,111,186
Saitama Bank, Japan	7,311	76		do		326,956
Sanwa Bank, Osaka	18,074	23	Illinois	do	California (4)	1,741,952
Standard & Chartered Banking Group Ltd., London	10,853	60	Illinois, Washington, New York (2).	do	California (14)	629,172
Sumitomo Bank, Osaka	20,359	16	Illinois	do	California (19)	2,061,471

See footnotes at end of table.

TABLE 5.—FOREIGN BANKS WITH BANKING OFFICES IN MORE THAN ONE STATE—Continued

JUNE 30, 1975

Parent bank	Deposits (millions)	World rank	U.S. bank operations: Branch	Agency	Subsidiary [1]	U.S. assets in New York, Illinois and California (thousands)
Swiss Bank Corp	$14,532	36	New York (2), Illinois	California		$1,990,517
Swiss Credit Bank	11,201	57	New York	do		713,073
Taiyo Kobe Bank, Japan	13,269	40	Washington	New York, California		868,170
Tokai Bank, Japan	14,281	38		do	California	1,267,100
Toronto Dominion Bank	10,913	59		do	New York, California (2)	1,274,686
Union Bank of Bavaria, Munich	16,158	30	New York, Illinois			127,966
Total, all banks	715,362		65 branches	63 agencies	30 subsidiaries	46,088,513

[1] Numbers in parentheses denote branches of banking subsidiaries.

[2] Companie Financiere de Suez is a holding companie for Banque de Suez et de l'Union des Mines (world rank 207) and Banque de l'Indochine (world rank 233), France.

[3] Owned by Amsterdam-Rotterdam Bank N.V., world rank 45, deposits 12,862; Creditanstalt-Bankverein, Vienna, world rank 102, deposits 4,955; Deutsche Bank A.G., Frankfurt, world rank 5, deposits 30,437; Midland Bank, Ltd., London, world rank 14, deposits 21,208; Societe Generale, Paris, world rank 9, deposits 27,239; Societe Generale de Banque S.A., Brussels, world rank 53, deposits 11,916.

Source: Federal Reserve, State bank supervisors and "American Bankers"; Compiled by committee staff.

TABLE 6.—U.S. SECURITIES OPERATIONS OF FOREIGN BANKS WITH BANKING OFFICES IN THE UNITED STATES

JUNE 30, 1975

Parent bank	Deposits (millions)	World rank	U.S. securities firms	Branch	Agency	Subsidiary	Total U.S. bank assets (thousands)
Algemene Bank, Nederland	$12,694	47	ABD Securities Corp	New York; Illinois	California		$832,923
Dresdner Bank, Frankfurt	24,063	10	do	do	do		403,288
Swiss Bank Corp	14,532	36	Basle Securities Corp	New York (2); Illinois.	do		1,990,517
Daiwa Bank, Tokyo	12,487	48	Daiwa Securities Co., America		New York; California		493,131
Banco di Roma, Rome	12,196	52	Europartners Securities Corp	New York	California	Illinois	315,662
Commerzbank, Frankfurt	17,338	27	do	New York; Illinois			700,511
Credit Lyonnais, Paris	28,500	8	do	do	California		2,570,053
Westdeutsche Landesbank Gironzentrale [1]	22,801	12	RWS Securities Services	New York			
Amsterdam-Rotterdam Bank, N.V	12,862	45	SoGen Swiss International [2]	Illinois	California (2)	1 bank and 1 investment in New York.	3,517,480
Societe Generale, Paris	27,239	9	do.[2]	do	do	do	3,517,480
Societe Generale de Banque S.A. Brussels	11,916	53	do.[2]	do	do	do	3,517,480
Companie Financiere de Suez [3]	3,872		Suez American	New York; Chicago			105,538
Swiss Credit Bank	11,201	57	White, Weld & Co.,[4] Swiss American Securities.	New York	California		713,073
Deutsche Bank, Frankfurt [1]	30,437	5	UBS–DB Corp				
Union Bank of Switzerland	14,402	37	do			New York	999,628
Fuji Bank of Japan	20,181	17	Yamaichi International (America) Inc		New York; California	do	1,636,924
Industrial Bank of Japan	18,136	22	do		do	do	944,768
Mitsubishi Bank	19,058	20	do		do	California (3)	1,360,977
Banca Commerciale Italiana	17,701	25	Shields Model Roland, Inc.[4]	New York; Illinois	California		939,699

[1] Assets not available from State bank departments as of June 30, 1975.

[2] Stockholders of European American Bank & Trust Co., New York. Assets and banking operations listed are for that bank.

[3] This is a holding company for Banque de Suez et de l'Union des Mines (world rank 207) and Banque de J'idonchine (world rank 233).

[4] Minority interests.

Source: Federal Reserve, State Bank Supervisors and "American Banker"; compiled by committee staff.

6. Problems in Regulating Foreign Banks

Some of the disadvantages of the current system of regulating foreign banks have already been mentioned. But there are other problems which would not be solved merely by transferring authority from the State to the Federal level. The basic difficulty was discussed in a study of foreign banking in the United States published by the Joint Economic Committee in 1966:

> Traditionally, officials have regarded branches of foreign banks to be the most difficult to supervise. The authorities have feared that they could not adequately protect the depositors in the branch institutions which, in effect, are appendages of foreign banking networks. Since the parent institutions are entirely outside the jurisdication for examination and supervision by State authorities, concern has been expressed that any attempt to exercise effective control over foreign branches is made illusory. It has been argued that assets of branches could be withdrawn by the foreign parent with comparative ease, and once removed, would be difficult to recover in suits initiated in American courts.[1]

In framing its law providing for the formation of foreign branches, New York under a restricted deposit agreement and is subject to a branch maintain dollar assets equivalent to at least 108 percent of all its liabilities within the State. Of the 8 percent, which, in effect, represents the branch's capital, 5 percent must be segregated and maintained in cash or Government securities in a domestic bank in New York under a restricted deposit agreement and is subject to withdrawal only with the consent of the superintendent of banks. Moreover, New York has imposed a separate-entity concept which requires that branches be operated as if their liabilities extended only to branch depositors. Deposits in the New York branch must be segregated from all other deposits in the parent bank network and depositors funds cannot be transferred through the "due to" and "due from" accounts of the branch with its parent and other branches of the parent outside the United States.

New York State banking authorities think that these provisions, together with regulation and examination at the level applicable to domestic banks, make it possible to supervise foreign branches independently of the operations of the parent bank and its branches. However, in 1964 when the provisions affecting foreign branches were passed in California, the State Superintendent of Banking argued that the control necessary to protect domestic depositors requires that the directors of a foreign bank be local residents subject to local civil and criminal control as well. The implications of both this argument and of the separate-entity concept in the New York law tend to undermine the traditional concept of branches as an integral part of the parent bank with the resources and organization of the parent behind it. For the protection of depositors it would seem that the subsidiary form is more consistent with U.S. standards of regulation and control.

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[1] "Foreign Banking in the United States", Paper No. 9, *Economic Policies and Practices*, Materials prepared for the Joint Economic Committee, 89th Congress, 2nd Session, 1966, pp. 23–24.

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The fact that the branches' lending limits are based on parent bank capital is another problem which is not easily solved in the context of domestic bank regulation, State or Federal. Thus attention must be directed toward the parent in assessing the soundness of a branch since a view of the parent operation as a whole is required to ascertain how well asset/liability maturities are matched, the bank's total of loans to a given borrower, its foreign exchange position in relation to capital, etc. The branch is thus more vulnerable to events within the parent bank network than if its lending limits were directly related to its own size as measured by total assets/liabilities.

The problems relating to limits on loans to one borrower apply to agencies as well—except that there are no limits on loans by agencies. However, there are other problems which are unique to the agencies. New York agencies of foreign banks are permitted to hold credit balances but can only accept domestic deposits for transfer to the parent bank. Recently, California agencies were permitted to accept foreign deposits as well as U.S. credit balances.[2] Agencies are not constrained to match maturities of assets and liabilities, do not carry FDIC insurance, are not subject to Federal regulation or supervision and are subject only to minimal regulation, supervision and examination by State authorities because there is no need to be concerned with protecting domestic depositors. But because supervision is lax, it is difficult to tell if or how credit balances held by agencies differ from deposits. Moreover, the restriction on accepting deposits can be evaded by agencies through issuing acceptances. There are over $10 billion of bankers' acceptances outstanding which were drawn to finance trade between third countries, most of it involving Japanese exports and imports. At year-end 1975, $163 million of acceptances issued by agencies of foreign banks were held in the portfolio of the Federal Reserve Bank of New York.

However, the relevant distinction for supervisory authorities is not only between domestic and international but between wholesale and retail funds. The size of individual balances held by agencies is such that deposit insurance is irrelevant. Thus, the real focus of concern is with the central bank which must act as lender of last resort should problems in one of these agencies threaten the parent bank, or other banks and corporations which have provided a sizable portion of its liabilities.

Another of the regulatory problems arising as a result of increased foreign bank participation in the U.S. banking system relates to the separation of banking and commerce. Some countries do not require such a separation and some foreign banks which are active in the United States are affiliated with foreign companies which do a substantial amount of business in the United States. Questions concerning the propriety of these relationships and their impact on competition within the American economy were raised in bills proposed in the California Legislature in 1973. The Federal Reserve Board has also attempted to meet this problem by regulation within the scope of its authority under the Bank Holding Company Act

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[2] The numerous representative offices of foreign banks also may receive checks for forwarding to the home office and handle the signing of loan papers. These offices are by law prohibited from performing banking functions of any kind but are, currently, totally unsupervised.

Amendments of 1970. It is thought by some, however, that the Board's interpretations have been so broad as to negate the effort. Support for this view is found in former Board Governor Andrew Brimmer's dissenting statement of December 1, 1971 in a case involving three Japanese banks:

> A principal purpose of the Bank Holding Act, unaltered by the 1970 amendments, was to prevent the dangers to the nation's banking system inherent in common control of banking and commercial interests. Approval of the instant applications ignores this historic mandate against common control—for certainly that is evidenced here—and is thus patently contrary to the public interest.[3]

Finally, mention should be made of the problem of disclosure. Few countries require the degree of financial disclosure which is required in the United States of both banks and corporations. While the fact and implications of Switzerland's bank secrecy laws are well known, it is not widely known that, for instance, British banks can and do hide critical information concerning the size of bad-debt provisions and write-offs. As a result, Cedar Holdings Ltd., a British "fringe" bank,[4] received approval from the Federal Reserve Board to acquire a bank in Westchester County, New York, in December 1973. Ten days later, Cedar Holdings' financial problems surfaced and trading in its stock on the London Exchange was suspended. At the suggestion of the Board, Cedar Holdings withdrew its application to purchase the American bank.

Problems of disclosure also have arisen relating to the adequacy of information necessary to support foreign loans by U.S. banks. A significant amount of foreign loans made by Franklin National Bank to private borrowers (including banks) were criticized by examiners because there was inadequate information to determine the prospects for repayment. There is no assurance that the experience of State banking authorities with foreign bank branches and agencies has been better or that the problem will be solved merely by transferring regulatory authority from the State to Federal level.

As this discussion and the discussion of joint ventures between banks chartered in different countries suggest, regulatory problems posed by international banking will not be solved easily or quickly. It is surely overly optimistic to expect that legislation dealing with the chartering and regulation of foreign banks in the United States will make substantial progress toward needed solutions since the problems of regulating the foreign operations of U.S. banks are of even greater significance for the American banking system. Nevertheless, it is important that the legislation serve to raise the problems and provide an occasion for public discussion of the issues.

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[3] *Federal Reserve Bulletin*, January 1972, p. 53.

[4] A "fringe" bank is one which is licensed under section 127 of the Companies Act to carry on the business of banking. It is under the supervision of the Department of Trade & Industry—not the Bank of England—and Supervision has been lax. With the collapse of real estate values in England at the end of 1973, it was necessary for the Bank of England to bail-out the fringe banks by directing the clearing banks (Barclays, Lloyds, etc.) which it does supervise to make funds available to them, thus impairing the position of the clearing banks.

Although the clearing banks are supervised by the Bank of England, they do not make critical balance sheet information available to the public.

7. The Problem of Reciprocity

The growth in international banking has raised a number of questions relating to the issue of reciprocity. Attitudes toward foreign banking activities vary from country to country. Sweden, for example, prohibits any form of penetration by foreign banks. Australia permits foreign banks to engage in other financial activities but not commercial banking. Canada restricts operations to subsidiaries but has recently limited to 25 percent the amount that can be invested in a banking subsidiary by a foreign bank. A number of developed countries permit foreign banks to operate on the same basis as domestic banks. This has meant that, in many instances, U.S. banks are able to undertake activities through subsidiaries overseas which are prohibited at home. It has also meant that the branches and subsidiaries of U.S. banks have been subject to the same foreign exchange controls imposed by host countries as their domestic banks in a number of European countries.

The denial by the New York State Banking Department of an application by Barclays Bank, London to acquire a relatively large suburban bank in 1973 indicates some of the problems with which U.S. regulatory agencies must deal. The New York authorities denied the application on the grounds that a similar acquisition by a domestic bank of a size comparable to Barclays would also have been denied and said that given "the impelling need for fairness in treating domestic and foreign institutions alike," the acquisition would not be in the public interest.[1] Those who disagreed with the decision argued that the subsidiary of the English bank that was actually acquiring the Long Island bank was not of comparable size to the U.S. banks in question and that the acquisition was pro-competitive rather than the reverse. Barclays itself argued that this was discriminatory since similar acquisitions by large U.S. banks had already taken place with the approval of United Kingdom authorities. On the other hand the Japanese Government has thus far not permitted U.S. or other foreign banks to establish operations in Japan which are comparable in terms of total assets to those of Japanese banks in the United States and elsewhere, nor have the Canadians.

The English experience with foreign banks has been unique but instructive. In its effort to maintain London's supremacy as the center for international finance, U.K. authorities have accorded a great deal of freedom to foreign banks, permitting individual banks to engage in a range of activities which traditionally have been parceled out among the various classes of English banks. As the activities of foreign banks expanded and as the U.S. banks in particular increased their share of the domestic market, the competitive advantages of the foreign banks became apparent. A recent decision by U.K. authorities to

[1] Barclays was then the 4th largest bank in the free world. It is now the 6th largest.

permit mergers of clearing and merchant banks indicates that they are prepared to solve the problem by liberalizing domestic restrictions to bolster the competitive position of U.K. banks rather than risk damage to the domestic banking system and loss of foreign income from restricting the activities of the multinational banks. There are some who have questioned this attitude, arguing that the British banking system has been preoccupied with the international banking system to an extent which is detrimental to the performance of banks in the domestic market, and wondering what future benefits can be expected from this further commitment to the requirements of international finance.

The problems which the United States faces with regard to the future of international banking center on the role of U.S. banks operating overseas rather than, as in the United Kingdom, on the role of foreign banks here. Legislation requiring Federal chartering and regulation of foreign banking activities and making their activities conform to domestic standards would have no negative impact on domestic banking. Such legislation might, however, imperil the position of those U.S. banks which have substantial investments in foreign operations.

Banks in some foreign countries believe that if U.S. banks can underwrite securities in their country because it is not in conflict with their laws, therefore they should be able to underwrite in the United States. This is what is usually called reciprocity. But other countries are not likely to expel U.S. banks on the grounds of lack of reciprocity n the range of permissible activities. However, if the issue of the range of activities were to be taken seriously by other countries, the foreign branches and subsidiaries of U.S. banks might be faced with restrictions which in effect would require that they conform more closely to the standards met currently by their parent banks. Those who are concerned about the lack of control over the foreign activities of U.S. banks would welcome the enforcement of this form of reciprocity by other countries since it would bypass the need for extensive regulatory revisions to provide a comparable solution imposed by U.S. authorities.

The solution currently in effect in countries such as Germany to permit foreign banks to share the same privileges, restrictions and responsibilities as do domestic banks seems the most reasonable. However, such a view confines the issue of reciprocity to a purely banking matter, a question of competitive equality related primarily to requirements for entry and range of permissible activities. Such a view minimizes the importance of issues relating to public policy. For some countries—either because of their size or degree of economic development—such a solution would not be reasonable. Multinational banking flourishes in a number of smaller developed countries and in some which are among the lesser developed as well. But a number of countries are not convinced that the additional banking facilities and competition provided by multinational banks will benefit their domestic economies. In some cases—Canada, Australia, and Mexico, for instance—restrictions on foreign banks reflect concern that their economies may be overwhelmed by foreign investment. The structure of the economy and degree of integration of public and private interests is a factor as well in assessing the policies of countries such as Japan or Sweden.

It is also possible that governments which have recently contemplated further restrictions on foreign banking activity regard such restrictions as an alternative to foreign exchange controls. Some countries recently have had some success with controls to limit inflows of foreign funds. Their efforts have benefited from floating rates. Countries which have sought to prevent outflows of funds by means of capital controls have been less successful and they have not been helped by floating rates. These countries will need to seek other alternatives to insulate their economies from the unstabilizing effects of capital flows. Some may choose to reduce capital flows by limiting the number of institutions, domestic and foreign, engaged primarily in international banking and thus dependent on flows of funds between national and international financial markets.

As this brief survey indicates, the issue of reciprocity raises questions which are not easily resolved. No doubt there are a number of questions which have not been covered here, among them the very important question relating to the responsibilities of the central bank in the host country to act as lender of last resort to foreign banks—a role which was refused in the summer of 1974 by the Bank of England in the case of a subsidiary of an Israeli bank.[2] Another is the problem of disclosure and examination. Few countries maintain a degree of surveillance over private banks comparable to that of the United States though some exercise a far greater degree of control over banking policies. Bank secrecy and reluctance to disclose the names of beneficial owners of shares can make regulation of banks from countries which favor such practices extremely difficult. It is also difficult to examine and supervise branches and subsidiaries of U.S. banks which are located in these countries. The result has been a substantial erosion of U.S. regulatory standards as applied to the largest U.S. banks with extensive foreign operations and certain foreign banks operating here as well.

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[2] The subsidiary was based in London and heavily involved in British real estate but it was the parent bank in Israel that failed. In another case involving a joint venture between a U.S. bank and English real estate interests, funds were made available to the floundering subsidiary bank by a British clearing bank and by the U.S. parent bank.

8. Joint Investments by U.S. and Foreign Banks

The joint investments of U.S. and foreign banks in overseas banking, trust and investment banking affiliates should also be taken into account in assessing competitive advantages enjoyed by foreign banks operating in the United States. The material in Appendices B, C, and D were derived from various sources and, while incomplete and in some cases outdated, does provide an indication of the number of such investments. It also indicates that, in a number of cases, the U.S. and foreign banks which share joint investments have established offices in cities in which the other bank has its home office. For example, Bank of America and Banque Nationale de Paris have 3 investments in common. The French bank has a banking subsidiary, French Bank of California, and an agency in San Francisco where the home office of the U.S. bank is located. Bank of America has a branch and 2 affiliates in Paris, one a merchant bank in which Banque Nationale de Paris has an interest. Further, both have subsidiaries in New York—The French-American Banking Corporation, a New York Investment Company subsidiary, and Bank of America, an Edge Act corporation.

Interlocking investments by U.S. banks in domestic institutions are prohibited. U.S. banks are, however, permitted to make joint investments in Edge corporations and foreign institutions but, on the whole, such investments are made by banks located in different States. The law requires that all international or foreign investments of U.S. banks be in institutions which do no business in the United States except that which, in the opinion of the Federal Reserve Board, is incidental to their international business.[1] As the example given above indicates, the commonality of investments between U.S. and foreign banks tends to circumvent the intent if not the letter of the law.

Direct investments by U.S. banks in foreign banks also may result in circumvention of the intent of U.S. anti-trust law as the following example illustrates. Until recently, Chase Manhattan Bank had a 13.7 percent investment in Standard and Chartered Banking Group Ltd., a holding company for two major London banks. Chartered Bank has 2 branches in New York and Standard Bank has an agency there. One of the two banks in which Chase had an investment through the holding company also has a subsidiary in the United States, Chartered Bank of London, San Francisco which also operates offices in Los Angeles and Oakland. The Federal Reserve Board ruled that Chase Manhattan must divest its interest in Standard and Chartered on the grounds that the California subsidiary violates the law prohibiting interstate branching. The branch and agency operations in New York apparently did not enter into the decision since they were chartered outside Federal law. Moreover, it is clear that the Justice Department has not yet confronted the implications of international banking for U.S. antitrust policy.

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[1] In a recent paper "Growth of International Banking, Implications for Public Policy," Andrew F. Brimmer and Frederick R. Dahl comment that "It is becoming increasingly difficult to visualize the existence of any foreign company of significance that does not have operations in the United States."

The advantage of the joint investment and the way in which it has introduced an anti-competitive bias in banking into the United States can be illustrated by examining the interrelationships between Chase Manhattan Bank, New York and Mitsubishi Bank, Tokyo. Chase and Mitsubishi are two of 6 banks owning an interest in the Orion Group of Banks, London, one of the larger of the consortium banks active in international banking markets.[2] In October 1974 Orion managed a 5-bank syndicated loan to Mitsubishi International Corporation, New York, the U.S. subsidiary of one of the major Japanese trading companies and, like Mitsubishi Bank, a member of the Mitsubishi "zaibatsu" or group of companies. The loan was a 3-year Eurodollar credit in the amount of U.S. $30 million. The 5 banks providing the funds included Orion, Chase Manhattan Limited, London, and 3 other banks which are subsidiaries of the major banks which hold an interest in Orion.[3] This instance of a banking group providing credit to the non-financial affiliate of one of the banks in the group (and a U.S. based affiliate at that) is not uncommon in the Eurodollar market and illustrates the extent to which U.S. regulatory policies have been undermined by developments in international banking.

The reintroduction of the syndicated loan makes it both natural and inevitable that groups of banks will coalesce around some common denominator in order to provide a large and relatively stable source of funds to meet the multi-million dollar needs of the various banks' corporate customers.[4] The possibility that joint investments serve such a purpose is very real. The result, as with all cartels, is an increase in concentration within the banking industry at the expense of those banks (both here and abroad) which are not of sufficient size to engage in international operations. It is a commonplace of U.S. regulatory tradition to view banking as unique among industries in that an increase in banking concentration frequently results in concentration in other areas of the economy. Ideally banks merely serve as intermediaries in allocating credit. When they begin to serve internal purposes—particularly when they have interests in non-banking enterprises—they will tend with increasing frequency to ignore the needs of the majority of borrowers in favor of the few.

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[2] For Orion's other parents, see Appendix B. Chase and Mitsubishi also share an interest in Diamond Lease Company, Tokyo, and in Libra Bank, London. Chase has branches in Tokyo and Osaka, an investment affiliate in Tokyo, and an Edge Act subsidiary in Los Angeles. Mitsubishi has a banking subsidiary in Los Angeles, agencies in Los Angeles and New York, minor investments in securities affiliates in New York and a representative office in Chicago. In addition to its investment in Orion and Libra, Chase has 3 branches in London, a banking affiliate, a trust affiliate and an investment affiliate. Mitsubishi has a branch in London and an interest in Japan International Bank, London together with 3 other Japanese banks and 3 Japanese securities houses. As noted, Mitsubishi also has minor investments in the New York subsidiaries of two of these partners, Nikko Securities and Yamaichi Securities. In December 1974 Chase Manhattan, Mitsubishi and a Hong Kong based subsidiary of Orion joined with another partner to establish Amanah Chase Merchant Bank, Ltd., Kuala Lumpur, Malaysia.

[3] The other banks were International Westminister Bank Limited, a subsidiary of National Westminister Bank, London; RBC Finance B.V., a subsidiary of Royal Bank of Canada, Montreal and West L. B. International S.A., a subsidiary of Westdeutsche Landesbank Girozentrale. Chase Manhattan and Orion arranged the $420 million loan to Burmah to acquire the U.S. based Signal Oil Company and Royal Bank of Canada was one of the participating banks.

[4] A syndicated loan is one in which the syndicating bank guarantees that it will obtain commitments from other banks for a loan of substantial size and receives a management fee in return for the guarantee. When a company or governmental unit wishes to borrow $200 million or more, a number of banks are required to participate because of the legal limit for U.S. banks on loans to one borrower. Banks from countries which are not subject to actual legal limits conform to some extent in limiting loans to one borrower as a matter of prudence.

9. The Impact of Foreign Banks on the Domestic Monetary System

Where and in what kinds of institutions foreign banks hold their U.S. assets and liabilities is important in evaluating their relative impact on the monetary system. As Table 4 indicates, the overwhelming majority (75.5 percent) of foreign banking activity takes place in New York and involves very little retail activity. Of the aggregate assets of all offices in New York, California and Illinois, bank subsidiaries—which alone are capitalized have deposits insured by the FDIC and are subject to Federal supervision—held only $10.5 billion or 21 percent of the total, while branches held $14 billion or 25 percent and agencies held $25 or 44 percent of the total.

Since a substantial portion of foreign bank assets are held by the New York branches and agencies, an understanding of their structure and operations seems particularly useful. As noted elsewhere, agencies are legally a part of the parent bank and not subject to the separate-entity provisions which apply to branches under New York law. Branches are subject to limits on loans to one borrower based on the capital position of the parent bank but there are no limits on loans by agencies. This is the principal attraction of the agency form for the Japanese banks since it allows them to focus on the needs of the large Japanese trading companies which are a part of the same "zaibatsu" or family group of companies. Loans by the Japanese agencies in New York and California have financed the bulk of U.S.-Japanese trade over the last decade. These activities are directly or indirectly financed in turn by U.S. banks since the Japanese Government limits the amount of funds which the parent banks can supply to their U.S. agencies and they therefore depend on the domestic or Eurodollar interbank markets for funds.[1]

The U.S. agencies, branches and New York Investment Company[2] subsidiaries hold about 70 percent of U.S. assets of foreign banks. An examination of their aggregate balance sheet (Tables 7 and 8) indicates the basic wholesale and international character of the banking business they conduct. The major portion of their funds (between 48 and 52 percent) are supplied to other banks with about one-third due from banks in the United States. About one-third of their assets are commercial and industrial loans, the bulk of which (one-fourth of

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[1] Klopstack, Fred H., "Foreign Banks in the United States: Scope and Growth of Operations," Monthly Review, Federal Reserve Bank of New York, June 1973, p. 143.

The U.S. agencies of Japanese banks also make heavy use of the U.S. acceptance market to finance Japanese trade with third countries. In January 1975 there were $18.6 billion acceptances outstanding of which $9.7 billion—more than half—were drawn to finance trade between countries other than the United States and largely involved Japanese exports and imports. Bills drawn to finance U.S. exports totaled $4.3 billion and the total for U.S. imports was $4.1 billion. Only a very small part of the acceptance market reflects use for domestic purposes. Bills drawn to finance domestic storage of goods and domestic shipments totaled $308 million and $105 million respectively.

[2] There were three companies owned by foreign residents and nine owned by U.S. residents chartered under the New York Investment Company Act at year-end 1974. The companies owned by U.S. residents are engaged in a domestic finance company business. The foreign-owned companies conduct an international banking business. Their activities are similar to those of foreign bank agencies. Unlike foreign bank branches chartered under New York State law, the New York investment companies cannot accept domestic deposits.

total assets) are loans to U.S. companies. Foreign branches, agencies and investment company subsidiaries reported $11.3 billion of commercial and industrial loans to U.S. companies at the end of October 1974. They hold about 9 percent of all business loans made by commercial banks in the United States. Foreign assets are less than one-third of their total assets. This data raises questions as to whether the accepted description of their activities as being involved primarily in international banking is correct. Their U.S. loans may be export related but information is not sufficient to confirm that as fact.

On the liability side, some 70 percent of the funds of foreign bank branches, agencies and investment company subsidiaries are obtained from other banks. On average, 40 percent of these funds are supplied by the parent bank network and 30 percent by non-related banks. Non-related U.S. banks provide about a quarter of total liabilities. Only 6.4 percent of total liabilities are non-bank U.S. deposits. Most of these deposits represent large denomination CD's issued by the New York branches. Only a few of the New York branches do a retail banking business.[3]

As Table 8 indicates, the nonsubsidiary offices of foreign banks have net liabilities to other banks ranging between 19 and 25 percent. This reflects their dependence on the parent network and on other, mainly U.S., banks. This degree of involvement in the interbank market increases the likelihood that problems of other banks will affect the U.S. agencies and branches of foreign banks and be passed by them in turn to still other banks. The presence within the U.S. banking system of this kind of banking operation requires careful appraisal of its impact since the only existing safeguard (absent reserve requirements, capital restrictions, limits on loans, insurance, etc.) is the willingness of the central bank in the country in which the parent bank is located to act as lender of last resort.

Safeguards are no less important to agencies than to subsidiaries and branches and the fact that they are not available reflects misunderstanding of the significance of their operations. Traditional safeguards are not applied by State authorities because agencies are not permitted to accept depositors' funds. But, as noted, their net liabilities to other banks are in excess of 20 percent of total assets/liabilities and these liabilities are, ultimately, depositors' funds. Little protection is afforded depositors in the U.S. banking system if they are prohibited from making deposits in unregulated banking institutions but their banks are permitted to sell their deposits to these institutions.

The substantial variation in net foreign liabilities shown in Table 8 indicates the degree to which foreign branches and agencies respond to changes in interest rates between U.S. and international markets. As noted earlier, there was a 25 percent increase in their claims on foreigners between April 24 and June 30, 1974, or a net outflow of $1.6 billion through the foreign branches and agencies for the 2 month period. Net foreign liabilities fell to a low of 9.7 percent on June 30 but then rose again to a high of 18.2 percent on October 31. Most of the increase in foreign lending in the spring of 1974 was to other foreign banks (a 42.5 percent increase) and the parent network a 27.6 percent increase). The inflow in subsequent months was from the same sources.

Table 8 also indicates that foreign agencies and branches are net suppliers of funds to the U.S. market. But this must be understood in

[3] The branches of Puerto Rican banks are primarily engaged in retail banking.

the context of the total parent bank network since they serve as both a source of dollars for parent bank activities in international markets (about 12–13 percent of total assets) and an outlet for Eurodollar funds of the parent network (30–33 percent of total liabilities). The U.S. branches and agencies of foreign banks are part of the mechanism which generates growth in the Eurodollar market. They can borrow dollars in New York for the parent bank's London or Nassau branch while the parent's foreign network supplies Eurodollars funds to be loaned in the New York interbank market and for direct lending to U.S. corporations. In either case, a deposit is created in an American bank and, unless offset by the Federal Reserve, there is an increase in the U.S. money supply.[4]

Eurodollars borrowed from a U.S. bank's own foreign branch are subject to reserve requirements, and the Federal Reserve has requested that foreign branches and agencies maintain the same reserve requirements on Eurodollar borrowings from the parent network on a voluntary basis, that they be deposited with a member bank and redeposited by the member bank with its district Federal Reserve bank. Requiring that reserves be held against Eurodollar borrowings makes them more comparable in cost to domestic funds and thus discourages an increase in use as an alternative source of funds. But when domestic funds are scarce because the Federal Reserve has curtailed the supply of reserves in an effort to restrain the economy, then there is a substantial increase in borrowings of Eurodollars since they are not subject to restraint and are thus more plentiful. Such a situation occurred in the period from July to October 1974. The U.S. branches and agencies of foreign banks increased their foreign liabilities by $1.8 billion and increased their loans to U.S. corporations by $1.4 billion. As these figures indicate, the Federal Reserve's efforts were undermined by the inflow of Eurodollars and it responded by restricting reserves further in an effort to offset the inflow.[5]

Domestic monetary policies are undermined by the Eurodollar market during periods of ease as well. In a speech delivered April 8, 1975, Federal Reserve Board Governor, Robert C. Holland, said:[6]

> "* * * a policy of monetary expansion might have less predictable effects on expanding credit in the United States and might be rendered less effective if U.S. banks utilized available resources to expand their overseas Eurodollar activities rather than for loans which might expand business activity in the United States."

Governor Holland might have applied this description to events in the period from November 1972 to March 1973. A substantial increase in the U.S. money supply followed by dollar outflows probably contributed to the downward pressure on the dollar which led to the February 1973 devaluation as relative interest changes induced a movement out of dollars into other currencies. As noted earlier, U.S. offices of foreign banks contributed $1.2 billion to the outflow in February and U.S. banks contributed as well. There was a 53 percent

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[4] If the funds are loaned to a U.S. corporation, it is most likely that they will be deposited in the corporation's account with a U.S. bank. If the loan is made by an agency the likelihood increases since agencies cannot accept deposits. The interbank loan may be a time deposit, a loan maturing in 1 day and settled in immediately available funds (Federal funds) or a term loan. If it is a time deposit or a loan it will be subject to reserve requirements. Liabilities classed as Federal funds purchased and securities sold under repurchase agreements are not subject to reserve requirements.

[5] In a speech entitled "Have We Learned From Our Mistakes" (March 24, 1975) Federal Reserve Board Governor Philip E. Coldwell criticized those who "fail to recognize the impact of the large and volatile foreign balances which move in and out of our banking system. Since such balances count toward the money supply, their extreme shifts necessarily complicate any attempt to meet a particular target."

[6] The speech, "Public Policy Issues in U.S. Banking Abroad," was delivered at the 53rd annual meeting of the Bankers' Association for Foreign Trade.

increase in the assets of foreign branches of U.S. banks as opposed to increases of approximately 30 percent in both 1971 and 1972. In order to accommodate so substantial an increase in their Eurodollar activities, American banks necessarily made use of the increased resources available to domestic offices for overseas lending. It may be that the central bank over-responded because increases in reserves were not having the desired impact on domestic economic activity. As funds were siphoned off for foreign lending, the Fed continued to pump in reserves in an effort to meet both its immediate targets and its overall economic objectives.

As noted above, these short-term capital flows occur in response to changes in interest rates. They are not generated by the needs of international trade and may not, in fact, accommodate those needs. But they have a profound impact on international trade due to their effect on exchange rates. Outflows weaken the dollar in exchange markets while inflows result in an increase in its value in relation to other currencies because they induce changes in dollar interest rates relative to foreign currencies. These shifts are then reflected in prices of exports and imports which in turn influence changes in prices, production and the allocation of resources in domestic markets.

The volatile nature of short-term capital flows over the past decade is indicative of the fact that the Eurodollar market is one in which financial rather than economic objectives have been accommodated. Governments have acquiesced to the growth of this market because its impact has not been understood. It was thought that events in the Eurodollar market could be isolated from events in national economies and that multinational banking institutions could be segregated from domestic banking systems. This now seems less evident. Questions as to the implications of continued growth of the Eurodollar market were raised by Governor Holland in April 1975 as follows:

> "My concern over the existence of an unregulated and reserve-free market in bank services is prospective. I am concerned that in the future the existence of this market will become increasingly attractive to potential customers who today may not regard it as a feasible alternative. I believe that the present is a good time for us to begin to think about some of the policy implications of a continued growth of an unregulated market in banking, for I am convinced that the cost advantages of the Eurodollar market will promote its continued growth into the foreseeable future." [7]

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[7] *Ibid.*, p. 20.

TABLE 7.—SELECTED ASSETS OF U.S. AGENCIES, BRANCHES AND NEW YORK INVESTMENT COMPANY SUBSIDIARIES OF FOREIGN BANKS, 1973-75

[Dollar amounts in millions]

	June 30, 1973		June 30, 1974		Dec. 31, 1974		June 30, 1975		Aug. 27, 1975	
	Amount	As a percent of total assets	Amount	As a percent of total assets	Amount	As a percent of total assets	Amount	As a percent of total assets	Amount	As a percent of total assets
1. Deposits due from nonrelated commercial banks:										
A. In United States	$3,607	12.5	$4,450	11.0	$4,193	9.5	$5,258	11.5	$3,331	7.3
B. In foreign countries	559	1.9	817	2.0	876	2.0	1,147	2.5	1,112	2.4
C. Total	4,166	14.5	5,267	13.0	5,069	11.4	6,405	14.0	4,443	9.8
2. Loans to nonrelated institutions:										
A. To commercial banks in United States, total	2,824	9.8	3,767	9.3	3,093	7.0	3,529	7.5	4,917	10.8
1. Maturing in 1 day and settled in immediately available funds	1,890	6.6	2,060	5.1	984	2.2	1,011	2.2	2,063	4.5
B. To foreign banks	916	3.2	2,071	5.1	2,399	5.4	2,297	5.0	2,005	4.4
C. Commercial and industrial, total	9,641	33.6	13,410	33.2	16,132	38.4	16,042	35.2	15,959	35.0
1. To United States	7,114	24.7	9,930	24.6	12,107	27.3	12,213	26.8	12,210	26.8
2. To foreign	2,527	8.8	3,480	8.6	4,025	9.1	3,829	8.4	3,749	8.2
D. All other loans, total	961	3.3	1,014	2.5	1,217	2.7	1,070	2.3	1,049	2.3
1. To United States	788	2.7	649	1.6	970	2.2	746	1.6	666	1.5
2. To foreign	173	.6	365	.9	247	.1	324	.7	383	1.0
E. Total	14,341	49.9	20,262	50.2	22,842	51.8	22,939	50.3	23,931	52.5
3. Due from directly related institutions:										
A. In the United States	3,183	11.1	3,959	9.8	4,796	12.8	4,448	9.8	4,693	10.3
B. In foreign countries	3,726	12.9	6,552	16.3	6,466	14.6	6,554	14.4	7,570	16.6
C. Total	6,909	24.0	10,511	26.1	11,262	25.4	11,002	24.1	12,263	26.9
4. Total due from related and nonrelated banks:										
A. From banks in United States	9,614	33.5	12,176	30.2	12,082	27.3	13,235	29.0	12,941	28.4
B. From banks in foreign countries	5,201	18.1	9,440	23.4	9,741	22.0	9,998	21.9	10,687	23.5
C. Total	14,815	51.6	21,616	53.6	21,823	49.3	23,233	50.9	23,628	51.9
5. Total foreign assets	8,618	30.0	14,024	34.8	15,012	33.7	15,686	34.4	15,804	34.7
6. Total assets	28,723		40,341		44,300	100.0	45,611	100.0	45,544	100.0

Source: Federal Reserve Board.

TABLE 8.—SELECTED LIABILITIES OF U.S. AGENCIES, BRANCHES AND NEW YORK INVESTMENT COMPANY SUBSIDIARIES OF FOREIGN BANKS, 1973–75

[Dollar amounts in millions]

	June 30, 1973		June 30, 1974		Dec. 31, 1974		June 30, 1975		Aug. 27, 1975	
	Amount	As a percent of total assets	Amount	As a percent of total assets	Amount	As a percent of total assets	Amount	As a percent of total assets	Amount	As a percent of total assets
1. Deposits, credit balances and borrowing from other than directly related institutions:										
A. Demand deposits:										
1. Due to United States	$1,159	4.0	$2,628	6.5	$1,975	4.5	$1,771	3.9	$1,189	2.6
(a) To banks	524	1.8	1,801	4.5	979	2.2	862	1.9	443	1.0
2. Due to foreign	1,160	4.0	1,514	3.7	1,633	3.7	1,723	3.8	1,712	3.8
(a) To banks	555	1.9	760	1.9	837	1.9	844	1.9	813	1.8
3. Total due to banks	1,075	3.7	2,561	6.3	1,816	4.1	1,706	3.7	1,256	2.8
4. Total demand deposits, credit balances, certified and officer's checks, travelers checks, letters of credit, etc	3,867	13.5	6,248	15.5	5,207	11.8	5,305	11.6	4,025	8.8
B. Time deposits:[1]										
1. Due to United States	1,344	4.7	1,072	2.6	897	2.0	1,523	3.3	1,758	3.9
(a) To banks	153	.5	292	.7	205	.5	169	.4	238	.5
2. Due to foreign	1,920	6.7	2,658	6.6	3,415	7.7	3,512	7.7	3,972	8.7
(a) To banks	292	1.0	553	1.4	967	2.2	1,116	2.4	1,140	2.5
3. Total due to banks	445	1.5	845	2.1	1,172	2.6	1,285	2.8	1,378	3.0
4. Due to foreign governments, central banks and international monetary institutions	1,077	3.7	1,129	2.8	1,082	2.4	1,039	2.3	1,171	2.6
5. Total time deposits	3,265	11.4	3,371	9.2	4,313	9.7	5,034	11.0	5,730	12.6

C. Borrowings:										
1. From U.S. banks	6,033	21.0	8,708	21.6	10,734	34.2	10,738	23.5	9,102	20.0
(a) Maturing in 1 day and settled in immediately available funds	1,413	4.9	1,839	4.5	2,579	5.8	2,987	6.5	1,374	3.0
2. Other United States	583	2.0	836	2.1	791	1.8	734	1.6	587	1.3
3. Foreign	150	.5	787	1.9	828	1.9	1,088	2.4	1,367	3.0
4. Total borrowings	6,767	23.5	10,330	25.6	12,352	27.9	12,560	27.5	11,056	24.3
D. Total due to nonrelated banks (demand deposits and time deposits and borrowings)	7,557	26.3	12,114	30.0	13,722	31.0	13,729	30.1	11,736	25.8
(a) To U.S. banks	6,710	23.4	10,801	26.8	11,918	26.9	11,769	25.8	9,783	21.5
(b) To foreign banks	847	2.9	1,313	3.2	1,804	4.1	1,960	4.3	1,953	4.3
2. Due to directly related institutions, total	12,669	44.1	16,825	41.7	18,648	42.1	18,285	40.1	20,684	45.4
A. In the United States [2]	3,127	10.9	4,232	10.5	4,681	10.6	4,739	10.4	5,264	11.6
B. In foreign countries	9,519	33.1	12,580	31.2	13,890	31.4	13,518	29.6	15,406	33.8
3. Total due to related and nonrelated banks	20,226	70.4	28,939	41.7	32,370	73.1	32,014	70.2	32,420	71.2
4. Total foreign liabilities	13,054	45.4	17,955	4.5	20,290	45.8	20,612	45.2	23,053	50.6
5. Total liabilities, reserves and capital accounts [3]	28,723		40,341		44,305		45,611		45,544	
6. Total liabilities of all reporting U.S. agencies, branches and domestic banking subsidiaries of foreign banks	33,975		48,127		56,167		57,325		56,372	
(a) Liabilities of agencies, branches and New York investment companies as a percentage of the total		84.5		83.8		78.9		79.6		80.8

[1] Includes about $200,000,000 savings deposits.

[2] The bulk is due to other branches and agencies in the United States. Only between $25,000,000 to $45,000,000 is due to banking subsidiaries and other related institutions.

[3] Capital accounts were $175,000,000, $183,000,000, $208,000,000 and $223,000,000 for the 4 periods covered and relate primarily to the New York Investment Co. subsidiaries.

Source: Federal Reserve Board.

TABLE 9.—FOREIGN AND INTERBANK CLAIMS AND LIABILITIES OF U.S. AGENCIES, BRANCHES AND NEW YORK INVESTMENT COMPANY SUBSIDIARIES OF FOREIGN BANKS, 1973–75

[Dollar amounts in millions]

	June 30, 1973		June 30, 1974		Dec. 31, 1974		June 30, 1975		Aug. 27, 1975	
	Amount	As a percent of total assets/liabilities	Amount	As a percent of total assets/liabilities	Amount	As a percent of total assets/liabilities	Amount	As a percent of total assets/liabilities	Amount	As a percent of total assets/liabilities
Foreign claims	$8,618	30.0	$14,024	34.8	$15,023	33.9	$14,786	32.4	$15,804	34.7
Foreign liabilities	13,054	45.4	17,955	44.5	20,290	45.8	20,612	45.2	23,053	50.6
Net	−4,436	15.4	−3,931	9.7	−5,267	11.9	−5,826	12.8	−7,249	15.9
Claims on other banks	14,815	51.6	21,616	51.2	21,823	49.2	23,233	50.9	23,628	51.9
Liabilities to other banks	20,226	70.4	28,939	71.7	32,370	73.1	32,014	70.2	32,420	71.2
Net	−5,411	18.8	−8,282	20.5	−10,447	23.6	−8,781	19.3	−8,792	19.3

Source: Federal Reserve Board.

10. Conclusions and Recommendations

International banking—the area in which the major developments in banking have occurred in the past decade—has evolved with only minimal governmental guidance on either national or international levels. The legal and institutional framework in which foreign banks have expanded in the United States and U.S. banks have expanded overseas is not structured in terms of national domestic needs but its continued expansion threatens a domestic banking structure which was framed to meet those needs. Flows of funds in and out of the United States through these institutions affect both international and domestic monetary policy. The immense growth in the pool of funds to which multinational banks have access and the fact that their responses at times have been at variance with policies initiated by the monetary authority constitutes a serious erosion of that authority as well as a competitive advantage over banks operating only in domestic markets.

The need for regulation and supervision of the U.S. activities of foreign banks by Federal authorities has been argued before and legislative proposals were introduced to provide Federal regulation as early as 1967. These bills authorized the Secretary of the Treasury to approve all applications for charters after consultation with the Secretary of State and provided for regulation and examination of foreign banks on the same basis as national banks.[1] By requiring, at an earlier date, that foreign banks conform to laws and regulations applicable to national banks, various competitive advantages which they have acquired as a result of State chartering—interstate banking, securities affiliations, exemption or advantageous treatment with regard to reserve requirements, loan limitations, examinations, etc.—would have been precluded.

But, as these earlier proposals indicate, an attempt now to transfer chartering and regulation of foreign banks to the Federal level will need to deal with the fact that a substantial portion of their activities are in violation of existing Federal banking law. It has been argued that since their involvement in activities which would be unlawful under Federal statutes has grown so extensive, divestiture would result in undue hardships. Others argue that the extensiveness of these violations makes divestiture imperative.

Table 6 lists the foreign banks engaged in securities operations. Table 5 lists individual banks with banking operations in more than one State and Table 10 lists by country the New York, California and Chicago banking assets of foreign banks which receive domestic deposits and/or make domestic loans in more than one of these States.

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[1] H.R. 6856, 90th Cong., 1st Sess., introduced by Mr. Patman; S. 1741, 90th Cong., 1st Sess., introduced by Mr. Javits; and H.R. 4841, 91st Cong., 1st Sess., introduced by Mr. Patman. Bills introduced by Mr. Patman and Mr. Rees (H.R. 11440 and H.R. 11597, 93rd Cong., 1st Sess) differ in several respects from the earlier bills but retain their basic philosophy and structural approach. An earlier bill introduced by Senator Javits (S. 3765, 89th Cong., 2nd Sess.) provided for chartering by the Comptroller of the Currency as did a bill introduced by Mr. Gonzalez (H.R. 9867, 90th Cong., 1st Sess.). Unlike the later 1967 and 1969 bills, Senator Javits first bill would have allowed foreign banks to operate as presently in more than one State.

The total of multistate assets, $46 billion, is almost 81 percent of the $57 billion U.S. assets of foreign banks reported to the Federal Reserve Board on June 30, 1975. To grandfather these operations without restricting their ability to accept domestic deposits and make domestic loans in more than one State would perpetuate a substantial competitive advantage for foreign banks over U.S. banks. Equally important, the 42 banks which now have multistate operations would have a potential for expansion in the future greater than that of their U.S. competitors. As noted above, some of these banks already have operations in the United States of a size which gives them a substantial presence in the U.S. banking market.

TABLE 10.—*U.S. assets of banks with banking operations in more than one State, by country, June 30, 1975*

	Assets[1] (thousands)
Brazil	$657, 070
Canada	6, 355, 539
England	5, 173, 809
France	3, 276, 121
Germany	1, 231, 765
Greece	234, 469
Hong Kong	256, 588
Israel	22, 313
Italy	1, 255, 361
Japan	20, 353, 565
Korea	162, 414
Mexico	8, 011
Netherlands	832, 923
Philippines	97, 495
Switzerland	2, 703, 590
Total	[2] 46, 088, 513

[1] Assets for New York, California and Illinois.
[2] Total includes European-American group with assets of $3,517,480. The parent banks which hold shares in this consortium are from Austria, Belgium, England, France, Germany and the Netherlands.

Source: State Banking Departments.

Another problem pointed up by the previous legislative proposals is the extent to which domestic banking law is no longer applicable to international banking. It is not possible, for example, to impose reserve requirements on deposits of banking offices which do not accept deposits. Nevertheless, these banking offices, the New York and California agencies, do have liabilities which are as available for domestic lending as are demand deposits and should be regulated and made responsive to monetary control.

In dealing with these problems, it seems reasonable to accept the existing distinction between domestic and international banking and shape a regulatory framework at the Federal level which will reflect that distinction. Given the differences in operations, it would seem more reasonable to establish a regulatory context in which there is comparability of treatment for agencies and branches of foreign banks and for overseas branches of U.S. banks. For example, additional regulation needed to improve monetary control should be imposed on both foreign branches here and U.S. branches overseas on the same basis. This would provide a needed first step toward regulation of the Eurodollar market as well as improve the ability of the Federal Reserve to deal with short-term flows through these offices.

A limited effort in this direction has already been made. As noted above, foreign bank branches and agencies have already been requested to keep the same reserve requirements against Eurodollar borrowings from the parent bank as do U.S. banks against Eurodollar borrowings from their branches. It would seem more appropriate to prescribe a minimum reserve requirement against their total liabilities. Thus, the central bank would have some influence over the rate of expansion of their liabilities, as well as having influence over the source of funds.

State laws dealing with foreign branches and agencies, the Edge Act and Federal regulations covering overseas activities of U.S. banks all provide precedents for dealing with the differences between domestic and international banking. The Edge Act seems particularly applicable to the problem of regulating foreign banks since it deals with international banking subsidiaries located in the United States but permitted to engage only in international activities.[2] California law also makes a distinction between international and domestic banking, requiring that banks that accept domestic deposits do so through subsidiaries which are fully integrated into the State banking system and subject to supervision and regulation by the Federal Deposit Insurance Corporation. California law requires that foreign banks which wish to do business in the State through offices which are an operating arm of the parent bank be prohibited from accepting domestic deposits.

There is, however, a difference in the way in which the Edge Act applies to international banking subsidiaries of U.S. banks and California law applies to foreign bank branches. The Edge Act was framed to deal with trade financing and it prohibits the corporations from doing any business in the United States which is not incidental to their international business. Thus, Edge Corporations—unlike the branches and agencies of foreign banks in the United States—cannot make loans to U.S. commercial and industrial customers for use in domestic operations.[3] For this reason, U.S. banks are allowed to establish Edge Corporations outside the State in which the parent bank is located and in more than one State. If foreign bank branches and agencies were required to conform to this structure—prohibited from accepting domestic deposits as branches already are in California and agencies are in New York, and from making domestic loans—there would be no need to dismantle their existing multistate operations.

Foreign bank subsidiaries are already restricted to a single State because they are covered by the Bank Holding Company Act. Thus a regulatory structure for foreign banks which permitted subsidiary operations as currently conducted and branch or agency operations governed by statutory and regulatory provisions which apply to Edge Corporations would appear to meet the requirements for a rational structure for foreign banking operations in the United States. And it would eliminate some of the advantages foreign banks have now in competing with domestic banks for domestic banking business.

The alternative to such a structure—as in the earlier proposals mentioned—is to attempt to integrate essentially international banking offices into the domestic banking system Such a structure—re-

[2] A description of Edge Act corporations is given in footnote 1 in chapter 1, p. 4.

[3] As noted above, the U.S. offices of foreign banks are an important source of loans to business and commercial borrowers. While they had only 6½% of total commercial bank assets on September 30, 1975, they made 10% of all commercial and industrial loans.

quiring that branches and agencies be restricted to a single State—is less desirable for two reasons. First, multistate operations are now so extensive that grandfathering becomes a necessity from the point of view of private interests but is totally unacceptable from the point of view of the public interest. Second, permitting foreign banks to continue to accept domestic deposits and make domestic loans while conducting an essentially international business through multistate offices would give statutory blessing to a full integration of domestic and international financial markets.

The degree of integration between domestic and Eurodollar financial markets which had already taken place at the beginning of the decade is only now being recognized. The implications of further integration have not been explored to the extent necessary to ascertain that it will in the future produce benefits that outweigh current disadvantages. Other developed countries recently have taken additional steps to insulate their economies from the impact of the Eurodollar market. Therefore, decisions concerning the operations of foreign banks in the United States which might result in facilitating capital flows should be weighed carefully. It should also be noted that further integration of a fully regulated domestic financial market with an unregulated international market will necessarily favor development of the latter. Such an integration in the future probably is both inevitable and desirable. Thus, it is imperative to take steps which introduce a degree of regulation into the Eurodollar market while meeting the present need to protect the domestic market from the instability which lack of regulation permits.

Another point which should be considered in proposals for regulating foreign bank branches and agencies is the fact that deposit insurance is irrelevant. As noted, agencies do not accept deposits and the deposits of branches are principally large CD's which exceed the $40,000 insured maximum. For this reason also, it is recommended that domestic operations be limited to foreign banks forming subsidiaries in the United States. It is also recommended that foreign agencies be required to maintain the same 108 percent excess of assets over liabilities as do foreign branches under New York law. Further, it would seem desirable to limit participation of foreign branches and agencies in the interbank market on the same basis as Edge Corporations are restricted since domestic interbank borrowings are an indirect means of receiving domestic deposits and the participation of foreign banks in the domestic interbank market is one of the more significant channels through which the domestic and Eurodollar markets are linked.[4]

As has already been noted, subsidiaries of foreign banks are currently covered by Federal law and their activities are integrated into the domestic banking system. But, given prohibitions against foreigners serving on the boards of national banks, only two foreign bank subsidiaries are federally chartered and two of the State chartered subsidiaries are Federal Reserve members. Two factors in particular seem to support those who argue that they should be member banks. The size of most of the parent banks and scope of their operations suggest that their U.S. activities be subject to the same regulations and restrictions as are the top U.S banks with whom they compete for large scale com-

[4] By interpretation the Federal Reserve Board limits Edge Corporations to transactions in Federal funds which are used to adjust reserve balances and not as a means of investing funds on a regular basis.

mercial and industrial loans. And their participation in joint ventures with American banks and other foreign banks operating in the United States argues that they be regulated by the same agencies which regulate the large American banks who are their partners.

Violations of the Glass-Steagall Act separating commercial and investment banking activities were not significant when earlier legislation for Federal chartering and regulation of foreign banks was introduced, but the application of Federal law would have prohibited securities affiliations automatically. Foreign banks establishing banking subsidiaries now are subject to the Bank Holding Company Act and to the prohibitions of Glass-Steagall and one bank has been required to divest a one-third interest in a securities affiliate. The fact that 19 banks are now involved in banking through branches and agencies and in securities activities indicates that, as is the case with multistate banking operations, grandfathering would ensure substantial competitive advantages to a number of very large banks.

But there is another issue as well. As shown in Appendix C, foreign banks engaged in securities activities have substantial interlocks with U.S. banks through joint ventures. Direct or indirect interlocks between U.S. banks and foreign banks which deal in securities and underwriting would seem to constitute an indirect violation of Glass-Steagall on the part of the American banks as well

The argument has been made that joint investments result in a lessening of competition in U.S. banking markets and have led to the formation of interlocking groups of banks on a global scale. The competitive advantages of these transnational banking groups are being considered by the Common Market Commission in a study announced in May 1973 of possible violations of the antitrust provisions of the Common Market Treaty. It is obvious that they should also be considered by U.S. authorities and that no joint investments within the United States should be exempt from regulation because the amount of ownership of individual banks is less than the 25 percent prescribed by the Bank Holding Company Act. To ensure that information necessary to formulate a policy for dealing with overseas joint investments is available, foreign banks with offices in the United States should be required to disclose investments of 5 percent or more in financial or non-financial institutions held in common with U.S. or other foreign banks.

Earlier legislative proposals imposed the obligations of Federal Reserve membership on foreign banks but permitted the individual bank to decide whether or not to seek discount and borrowing privileges. This paper has also argued that the Federal Reserve administer reserve requirements for all foreign bank offices in the United States. But the fact that the international banking operations of the agencies and branches of foreign banks are similar to those of Edge Corporations and that these international banking units of domestic banks, though regulated and supervised by the Board, are not eligible for discount and borrowing privileges argues that like units of foreign banks be treated similarly. Agencies and branches are more a part of the parent bank network than the U.S. banking system, and are engaged in interest rate arbitrage between international and domestic markets. These factors suggest that making Federal Reserve credit

available to these institutions may not be appropriate. The Bank of England and the Bank of Japan do not offer discount and borrowing privileges to foreign banks. It should also be noted that foreign bank branches and agencies cannot now borrow and rediscount with the Fed. Therefore, continuing to withhold these privileges would not appear to impose great hardship.

Foreign banks establishing subsidiaries in the United States are subject to the Bank Holding Company Act and are permitted to expand into non-banking activities within the regulatory framework applicable to U.S. banks. To date there has been very little activity in this area and no problems have emerged. However, without necessarily anticipating problems, it is suggested that consideration be given to the fact that the structure of the majority of international banking institutions is already so complicated as to cause concern regarding a further proliferation of subsidiary and affiliate relationships. It could also be argued that not all activities appropriate to domestic banks are necessarily appropriate to subsidiary banks controlled by parent institutions in another country—for example, in addition to non-banking subsidiaries within the United States, the establishment of branches outside the United States by U.S. subsidiaries of foreign banks.[5] This is an activity that should be undertaken by the parent bank rather than its U.S. subsidiary in the interest of improved managerial supervision and control, as well as for the sake of avoiding complications in the regulatory structure. When a bank in Country A forms a subsidiary in Country B which establishes a branch in Country C, problems arise in determining the degree of responsibility of each country for regulation of the activities of the branch and the degree of responsibility of each central bank to act as lender of last resort. But there are also abundant examples of such activity among U.S. banks active overseas and—as a hypothetical composite example—having subsidiaries in Luxembourg which control subsidiaries in Switzerland which control a network of affiliate banks in Africa. In such a system, the implementation of traditional concepts of regulation is impossible and the need for new policies relevant to the requirements of international banking is apparent.

Finally, some thought should be given to policies governing the desirable level of foreign bank activity in the United States and the degree of concentration of banks from any one country. Recommendations in this area are beyond the scope of this study but it is suggested that licensing of foreign banks by the Secretary of the Treasury after consultation with the Secretary of State and other administration officials and with State and Federal banking authorities would provide the proper framework for effecting such a policy. The activities of foreign banks in the United States are not merely a banking matter. They relate to such questions of public policy as balance of payments, the value of the dollar, the effectiveness of domestic monetary policy and allocation of U.S. credit resources. For this reason, it is imperative that foreign banks be chartered and made subject to Federal regulation in order to improve the implementation of policies related to these issues.

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[5] Three California subsidiaries of foreign banks—Bank of Tokyo of California, Sumitomo Bank of California, and Lloyd's Bank of California (formerly First Western Bank and Trust Co.)—have overseas branches and subsidiaries with combined assets of $226,248,923.

APPENDIX A

TABLE I.—FOREIGN BANK OPERATIONS IN UNITED STATES, JUNE 30, 1974

Name of bank	Banking operations: California	Banking operations: New York	Banking operations: Chicago	Banking operations: Other	Securities operations	Worldwide rank of parent bank[1]	U.S. banking assets (California and New York) Dec. 31, 1972 (thousands)	U.S. banking assets (California, New York and Chicago) June 30, 1974 (thousands)[2]
ARGENTINA								
Banco de la Nacion Argentina		Branch				166	NA	109,817
AUSTRIA								
Creditanstalt Bankverein		2 affiliates[3]	Affiliate branch[4]			102	([5])	287,984
BELGIUM								
Banque de Bruxelles					Affiliate, New York	74	NA	NA
Banque Lambert					do	241	NA	NA
Kredietbank					do	82	NA	NA
Societe Generale de Banque		2 affiliates[3]	Affiliate branch[4]		do	53	([5])	287,984
BRAZIL								
Banco do Brasil	Agency	Branch				31	$313,019	578,844
Banco do Estado de Sao Paulo		Agency				245	NA	113,508
Banco Real		Branch				524	50,764	61,682
CANADA								
Bank of British Columbia	Agency					633	NA	49,451
Bank of Montreal	Sub., agency	Sub. agency				28	948,140	1,182,344
Bank of Nova Scotia	Agency	do		Branch, U.S. Virgin Islands, and Puerto Rico.		51	655,107	635,122
Canadian Imperial Bank of Commerce	Agency, sub	do		Branches Oregon and Washington		21	740,984	907,469
Royal Bank of Canada	Agency	do		Branch in U.S. Virgin Islands, and Puerto Rico.		15	2,388,730	3,398,232
Royal Trust Co				Florida Sub			NA	NA
Toronto Dominion Bank	Sub., agency	Sub. agency				59	404,058	981,475

See footnotes at end of table.

APPENDIX A

TABLE I.—FOREIGN BANK OPERATIONS IN UNITED STATES, JUNE 30, 1974—Continued

Name of bank	Banking operations: California	Banking operations: New York	Banking operations: Chicago	Banking operations: Other	Securities operations	Worldwide rank of parent bank [1]	U.S. banking assets (California and New York) Dec. 31, 1972 (thousands)	U.S. banking assets (California, New York and Chicago) June 30, 1974 (thousands) [2]
FRANCE								
Banque de Suez et de l'Union des Mines					Sub., New York	207	NA	NA
Banque de Paris et des Pays-Bas					Affiliate, New York	133	NA	NA
Banque de L'Indochine*			Branch		Sub., New York	233	NA	135,000
Banque Nationale de Paris	Sub., agency	Subs	do			4	659,034	988,503
Banque Rothschild					Affiliate, New York	463	NA	NA
Credit Industriel et Commercial*		Branch				126	NA	52,407
Credit Lyonnais	Agency	do	Branch		do	8	1,219,922	2,027,509
Societe Generale		2 affiliates [3]	Affiliate branch [4]		do	9	([5])	287,984
GERMANY								
Bayerische Hypotheken & Wechsel-Bank					Affiliate, New York	49	NA	NA
Bayerische Vereinsbank		Branch	Branch			30	([6])	([6])
Commerzbank		do	do		Affiliate, New York	27	355,589	459,587
Deutsche Bank		2 affiliates [3]	Affiliate branch [4]		Sub., New York	5	([5])	287,984
Dresdner Bank	Agency	Branch	Branch		Affiliate, New York Sub., New York.	10	165,890	676,027
Westdeutsche Lavdesbank		do						
GREECE								
National Bank of Greece		Sub	Branch			120	105,304	214,802
HONG KONG								
Hong Kong & Shanghai Banking Corp	Agency, sub	Branch	do		Branch, Washington	77	257,943	238,896
Shanghai Commercial Bank	Agency						NA	10,869
INDIA								
State Bank of India		Branch				106	19,310	27,028
IRAN								
Bank Melli, Iran		Agency				121	25,557	25,315
Bank Saderat, Iran		do				187	1,937	1,652

Bank Leumi Le-Israel		Sub. agency	Branch		Sub., New York	96	234,395	285,700
Israel Discount Bank		Sub. branch				169	324,042	310,183
Bank Hapoalim, B.M		Branch				143		
ITALY								
Banca Commerciale Italiana	Agency	Branch	Branch and affiliate branch.[4]		Affiliate, New York	25	339,739	872,197
Banca Nazionale del Lavoro		do				24	218,845	324,401
Banco Ambrosiano					Sub., New York	204	NA	NA
Banco di Napoli		Agency				73	8,852	8,170
Banco di Roma	Agency	Branch	Sub		Affiliate, New York	52	34,338	301,413
Credito Italiano		do				50	NA	321,134
JAPAN								
Bank of Tokyo	Sub., 2 agencies	Sub. agency	Affiliate	Branch Oregon and Washington.	Affiliate, New York[6]	33	4,006,985	5,671,693
Dai-Ichi Kangyo Bank	Agency	Agency	Sub			11	665,413	1,276,458
Daiwa Bank	do	do			Affiliate, New York[6,7]	48	525,206	557,925
Fuji Bank	do	Agency sub			do[8,10]	17	927,014	1,320,816
Hokkaido Takushoku Bank	do	Agency				97	44,469	160,175
Industrial Bank of Japan	do	Agency sub			Affiliate, New York.[6,7,8,9,10]	22	49,387	355,552
Kyowa Bank	do	Agency				62	NA	303,249
Long Term Credit Bank of Japan		Branch			Affiliate, New York[9]	35	NA	NA
Mitsubishi Bank	Sub. agency	Agency			do[8,10]	20	842,936	1,490,774
Mitsubishi Trust & Banking		do			do[8]	54	NA	100,748
Mitsui Bank Ltd	Agency sub	do				42	734,456	1,178,827
Mitsui Trust & Banking		do			Affiliate, New York[8]	61	NA	56,356
Saitama Bank	Agency	do				76	80,028	221,317
Sanwa Bank	Sub. agency	do	Branch		Affiliate, New York[8]	23	739,586	1,691,278
Sumitomo Bank	do	do	do	Affiliate Hawaii	do[9]	16	1,342,752	2,415,882
Sumitomo Trust & Banking Co					do[9]	56	NA	NA
Taiyo Kobe Bank	Agency	do		Branch, Washington		40	96,948	795,356
Tokai Bank	Agency sub	do			Affiliate, New York[8]	38	667,725	1,153,795
KOREA								
Korea Exchange Bank	Agency sub	Agency	Branch			567	123,781	152,138
MEXICO								
Banco de Commercio	Agency					211	N.A.	15,594
Banco Nacional de Mexico S.A	do	Agency				225	10,456	9,454
NETHERLANDS								
Algemene Bank Nederland	Agency	Branch	Branch		Affiliate, New York	47	300,313	817,150
Amsterdam Rotterdam Bank		Affiliates[3]	Affiliate branch[4]		do	45	(5)	287,984

See footnotes at end of table.

APPENDIX A

TABLE I.—FOREIGN BANK OPERATIONS IN UNITED STATES, JUNE 30, 1974—Continued

Name of bank	Banking operations: California	Banking operations: New York	Banking operations: Chicago	Banking operations: Other	Securities operations	Worldwide rank of parent bank [1]	U.S. banking assets (California and New York) Dec. 31, 1972 (thousands)	U.S. banking assets (California, New York and Chicago) June 30, 1974 (thousands)
PAKISTAN								
Habib Bank		Branch, affiliate [3]				414	8,906	12,170
National Bank of Pakistan		do				473	39,062	95,380
PHILIPPINES								
Philippine National Bank	Agency	Affiliate [3]		Agency Hawaii		389	35,381	81,764
PUERTO RICO								
Banco Credito y Ahorro Ponceno		Affiliate [3]				495	47,437	32,945
Banco de Ponce		10 branches					116,858	131,765
Banco Popular de Puerto Rico		8 branches				404	81,150	67,540
SINGAPORE								
Overseas Union Bank		Agency				669	NA	2,642
SWITZERLAND								
Swiss Bank Corp	Agency	Branch	Branch		Sub., New York	36	388,274	1,045,323
Swiss Credit Bank	do	1 branch			Sub., Affiliate, New York.	57	337,571	472,913
Swiss-Israel Trade Bank		Sub						
Trade Development Bank		do					293,730	261,998
Union Bank of Switzerland						491	[11] 643,027	[12] 913,204
Continental Trade Bank		Sub			Affiliate, New York	37	NA	NA
						858		

TAIWAN								
nternational Commercial Bank of China		Agency		Branch		700	110,032	145,492
THAILAND								
Bangkok Bank		Agency				281	32,630	123,853
UNITED KINGDOM								
Hill Samuel & Co					Sub., New York	266	NA	NA
Kleinwort Benson, Ltd					do	227	NA	NA
S. G. Warburg & Co					Affiliate, New York	516	NA	NA
Barclays Bk. Ltd. & Barclays Bk. Int'l	Agency sub	Sub. branch	Branch	Branches Massachusetts and U.S. Virgin Islands.		6	532,721	945,424
Chartered Bank	Sub. agency	2 branches	Branch			136	228,398	393,238
Thomas Cook & Sons (Bankers)		Agency					29,207	53,606
Lloyds Bank [13]	Sub	Branch	Branch			19	523,788	2,633,527
Midland Bank		2 affiliates	Affiliate branch [4]			14	([5])	287,984
National Westminster Bank	Agency	Branch	Branch			7	88,507	399,722
Schroders Ltd.[14]		Subs				449	470,117	125,429
Standard Bank		Agency				98	60,552	141,741

*Banque de L'Indochine and Credit Industriel et Commerciel are owned by Companie Financiere de Suez.

[1] Worldwide rank by deposits Dec. 31, 1974, as compiled by the "American Banker".

[2] Data for Chicago as of Dec. 31, 1974.

[3] European American Bank & Trust Co. European American Banking Corporation—branch Los Angeles, assets were $846,205,000 on Dec. 31, 1972.

[4] Branch of the European Banking Corp., a British based consortium owned by 7 banks, 6 of whom are the parent banks of European American Bank & Trust Co., New York.

[5] Established banking operations after reporting date. Information on assets of securities affiliates is not available.

[6] Nomura Securities—branches in California, Hawaii. Holdings range between 2.1 percent and 5 percent.

[7] New Japan Securities International which has a branch in Los Angeles. Holdings range 6.9 percent and 9.4 percent.

[8] Nikko Securities International which has branch offices in Los Angeles and San Francisco. Holdings range from 2.3 percent to 2.5 percent.

[9] Daiwa Securities—branch in California. Banks listed minority holdings in range of 3.4 percent to 4.2 percent.

[10] Yamaichi International America Inc. which has branch offices in Chicago and Los Angeles. Holdings at 8.5 percent.

[11] Deposits.

[12] Deposits, Dec. 31, 1974.

[13] Lloyd's also has an export financing subsidiary in New York. Activities also include those of its subsidiary, Lloyds & Bolsa International Bank Ltd., London.

[14] In addition to its banking subsidiaries, Schroders has subsidiaries also engaged in investment counseling, real estate, and leasing.

NA—Not available.

Source: Conference of State Bank Examiners, State banking departments, and "American Banker."

TABLE II.—GEOGRAPHIC BREAKDOWN OF BRANCHES, AGENCIES AND NEW YORK INVESTMENT COMPANY SUBSIDIARIES OF FOREIGN BANKS, JUNE 30, 1974 [1]

Country or area	Number of offices	Amount of assets (millions)	Percent of total assets
Japan	30	$16,216	43.2
Canada	11	6,622	17.6
Europe	44	12,454	33.1
Latin America	10	1,119	2.9
Middle East	5	349	.9
Far East	14	766	2.3
Total	114	37,526	100.0

[1] Data for Chicago are for Dec. 31, 1974.

Source: California, Illinois, and New York State banking departments.

TABLE II(a).—GEOGRAPHIC BREAKDOWN OF CALIFORNIA AGENCIES OF FOREIGN BANKS, JUNE 30, 1974

Country or area	Number of agencies	Amount of assets (millions)	Percent of total assets
Japan	12	$6,245	78.8
Canada	6	604	7.6
Europe	8	874	11.0
Latin America	2	60	.8
Middle East			
Far East	4	142	1.8
Total	32	7,925	100.0

TABLE II (b).—GEOGRAPHIC BREAKDOWN OF NEW YORK AGENCIES OF FOREIGN BANKS, JUNE 30, 1974

Country or area	Number of agencies	Amount of assets (millions)	Percent of total assets
Japan	16	$9,799	59.6
Canada	5	6,018	36.7
Europe	3	150	.9
Latin America	2	122	.7
Middle East	3	38	.2
Far East	4	305	1.9
Total	33	16,432	100.0

TABLE II(c) GEOGRAPHIC BREAKDOWN OF NEW YORK BRANCHES OF FOREIGN BANKS, JUNE 30, 1974

Country or area	Number of branches	Amount of assets (millions)	Percent of total assets
Japan			
Canada			
Europe	15	$8,845	85.0
Latin America	6	937	9.0
Middle East	1	310	
Far East	5	318	3.0
Total	27	10,410	100.0

TABLE II(d) GEOGRAPHIC BREAKDOWN OF CHICAGO BRANCHES OF FOREIGN BANKS, DEC. 31, 1974

Country or area	Number of branches	Amount of assets (millions)	Percent of total assets
Japan	2	$172	31.8
Canada			
Europe	15	366	67.9
Latin America			
Middle East	1	.25	.05
Far East	1	.26	.06
Total	19	538.51	[1] 99.81

[1] Figures do not total due to rounding.

TABLE III.—GEOGRAPHIC BREAKDOWN OF NEW YORK, CALIFORNIA AND CHICAGO SUBSIDIARIES OF FOREIGN BANKS, JUNE 30, 1974 [1]

Country or area	Number of subsidiaries	Amount of assets (millions)	Percent of total assets
Japan	8	$3,152	42.9
Canada	8	531	7.2
Europe	10	3,236	44.1
(United Kingdom)	(5)	(2,161)	(29.4)
Latin America			
Middle East	2	278	3.8
Far East	2	147	2.0
Total	30	7,344	100.0

[1] Data for Chicago are for Dec. 31, 1974. 1 Italian and 2 Japanese banks have subsidiaries in Chicago with total assets of $272,000,000.

Source: California, Illinois, and New York State banking departments.

TABLE III (a).—GEOGRAPHIC BREAKDOWN OF CALIFORNIA SUBSIDIARIES OF FOREIGN BANKS,[1] JUNE 30, 1974

Country or area	Number of subsidiaries	Amount of assets (millions)	Percent of total assets
Japan	5	$1,804	44.0
Canada	3	394	9.6
Europe	4	1,779	43.5
Latin America			
Middle East			
Far East	1	120	2.9
Total	13	4,097	100.0

[1] The California State banking department reports that 4 additional banks with combined assets of $281,500,000 are owned by foreign individuals.

TABLE III(b).—GEOGRAPHIC BREAKDOWN OF NEW YORK SUBSIDIARIES OF FOREIGN BANKS, JUNE 30, 1974

Country or area	Number of subsidiaries	Amount of assets (millions)	Percent of total assets
Japan	1	$1,158	38.9
Canada	5	137	4.6
Europe	5	1,375	46.3
Latin America			
Middle East	2	278	9.3
Far East	1	27	.9
Total	14	2,975	100.0

APPENDIX B

JOINT INVESTMENTS OF U.S. AND FOREIGN BANKS[1]

U.S. shareholder(s)	Affiliate(s)	Foreign shareholder(s)
Bank of America National Trust & Savings Association, San Francisco	Societe Financiere pour les Pays d'Outre Mer (SFOM), Zurich	Banque Lambert, Brussels; Banque Nationale de Paris; Commerzbank A. G., Duesseldorf.
Do	Banca per Finanziamenti a Medio Termine S.p.A., Milan	Banca Nazionale dell'Agricoltura, Rome; Banco Ambrosiano, Milan.
Do	Commercial & General Acceptances Ltd., Sydney	Commercial Banking Co. of Sydney.
Do	Partnership Pacific Ltd., Sydney	Bank of Tokyo, Ltd., Tokyo; Bank of New South Wales, Sydney.
Do	Banco Real do Canada, S.A., Rio de Janeiro, Brazil	Royal Bank of Canada, Montreal.
Do	Societe Financiere Europeene	Dresdner Bank A. G., Duesseldorf, Algemene Bank Nederland N. V., Amsterdam; Barclays Bank Ltd., London; Banque de Bruxelles; Banca Nazionale del Lavoro, Rome; Banque Nationale de Paris; Sumitomo Bank Ltd., Osaka.
Do	World Banking Corp., Nassau	Toronto Dominion Bank, Toronto; Banque Lambert, Brussels; Banque Nationale de Paris; Commerzbank A. G., Duesseldorf; Skandinaviska Enskilda Banken, Stockholm; Firma von Lanschot, Amsterdam; J. Clifford Folger.
Bank of America (through Bank of America Ltd. Britain) 17.5 percent.	European Brazilian Bank, London	Banco de Brasil, 35 percent; Banque Ameribas, Luxembourg, 17.5 percent (in which Bank of America has an investment); Deutsche Bank, Germany, 15 percent; Union Bank of Switzerland, 15 percent.
Bank of America National Trust & Savings Association, San Francisco	Bank of America Ltd., London	Kleinwort Benson & Co., London.
Do	Banque Ameribas, Luxembourg	Banque de Paris et Pays Bas, Paris.
Do	Ameribas Holdings S.A	Do.
Bankers Trust Co., New York	Societe Generale de Banques au Cameroun	Societe Generale, Paris; Banca Nazionale del Lavoro, Rome; Bayerische Vereinsbank, Munich; Credit Suisse, Zurich; Banque de l'Union Parisienne, Paris; Banque de L'Indochine Paris; Credit Industril et Commercial, Paris.
Do	Societe Generale de Banques au Congo	Do.
Do	Societe Generale de Banques en Cote d'Ivoire	Do.
Do	Societe Generale de Banques au Senegal	Do.
Brown Bros. Harriman & Co., 22 percent, First National Bank of Minneapolis, 10 percent, Pittsburg National Bank, 10 percent.	Brown Harriman and International Banks Ltd., London	Banco Ambrosiano, Italy, 40 percent; Berliner Handels-Gesellschaft-Frankfurter Bank, Germany, 40 percent; Credit Commercial de France, 40 percent; Kredietbank, Belgium, 40 percent; Nederlandsche Middenstands Bank, 40 percent; Williams and Glyn's Bank, England, 40 percent.
Brown Brothers Harriman & Co., New York	Fleming, Suez, Brown Brothers, London	Robert Fleming & Company, Ltd., London; Campagnie Financiere de Suez et de l'Union Parisienne, Paris.

See footnote at end of table.

APPENDIX B—Continued

JOINT INVESTMENTS OF U.S. AND FOREIGN BANKS [1]—Continued

U.S. shareholder(s)	Affiliate(s)	Foreign shareholder(s)
Chase Manhattan Bank, National Association, New York	Libra Bank, London	National Westminster Royal Bank of Canada; Credito Italiano; Mitsubishi Bank, Westdeutsche Landesbank; Swiss Bank Corp.; Banco Espirito Santo e Comercial de Lisboa.
Do	Siga Financiera, S.A., Madrid	Euro-Americano de Financiacion e Inversiones, S.A., Spain; Standard & Chartered Banking Group Ltd., London; Banco Hispano-Americano, Madrid; Other Spanish stockholders.
Do	Diamond Lease Company, Tokyo	Mitsubishi Bank Ltd., Tokyo.
Do	Orion Banking Group Ltd., London; (a) Orion Multinational Services; (b) Orion Bank, Ltd.; (c) Orion Termbank.	National Westminster Bank, Ltd., London; Royal Bank of Canada, Montreal; Westdeutsch Landesbank Girozentrale, Duesseldorf; Credito Italiano, Milan; Mitsubishi Bank Ltd., Tokyo; Midland Bank, 4.59 percent.
Do	Standard & Chartered Banking Group Ltd., London	Chartered Bank Ltd., London; Standard Bank, Ltd., London; National Westminster 8.18 percent.
Do	Banco del Comercio, Bogota, Colombia	Dresdner Bank A.G., Frankfort.
Do	Banque de Commerce, S.A., Antwerp, Belgium	Banque de Bruxelles, Brussels.
Do	Inversiones Atlantida, S.A., Tegucigalpa, Honduras	Dresdner Bank A.G., Frankfort.
Chase Manhattan Bank, National Association, New York; Manufacturers Hanover Trust Co., New York.	National Investment Bank for Industrial Development, Athens	National Bank of Greece, Athens.
Chase Manhattan Bank, National Association, New York	Chase-N.B.A. Group Ltd., Melbourne, Australia	National Bank of Australasia, Ltd., Melbourne.
Do	Equipment Leasing Ltd	Hambros, 29 percent; Standard Bank, 29 percent.
Chemical Bank, New York	Development Underwriting Ltd., Australia	Union Bank of Switzerland.
Chemical Bank, 30 percent; Northern Trust Co., Chicago, 20 percent.	London Multinational Bank, London	Baring Brothers & Co., London, 20 percent; Credit Suisse, Zurich, 30 percent.
Continental Illinois National Bank & Trust Co., Chicago, 10 percent	H. & H. Factors, London	Walter E. Heller International Corp., 60 percent; Hambros Bank, 25 percent.
Continental Illinois National Bank & Trust Co	Singapore International Merchants Bankers, Singapore	Crown Agents; Overseas Chinese Banking Corp.
Do	Commercial Continental Ltd	Crown Agents; Credit Commercial de France; Commercial Banking Co. of Sydney.
Do	Westralian International Ltd	Crown Agents; Credit Lyonnais, France; E. D. Sassoon Banking Co., Ltd.
Do	Credit Commercial de France	Kredietbank S.A., Belgium; Swiss Bank Corp.; Banque de l'Indochine; Banque Rivaud.
Do	E. D. Sassoon Banking, Ltd., London	Crown Agents.
Do	Sassoon Trustee & Executor Corp., Ltd	Do.
Do	Caribbean Bank, British West Indies	Do.
Do	Banque Americano Franco-Suisse pour le Maroc, Morocco	Credit Commercial de France; Swiss Bank Corp.
Do	Commercial Bank Zambia Ltd., Zambia	Netherlands Overseas Bank N.V. (Bank Mees and Hope), Amsterdam; Netherlands Bank of South Africa.
Do	Credit Commercial de France, Paris	

Crocker National Bank, San Francisco, 10 percent	United International Bank, Ltd., England	Banco di Bilbao, 10 percent; Bank Mees and Hope, 10 percent; Bank of Nova Scotia, 10 percent; Banque Francaise du Commerce Exterieur, 10 percent; Bayerische Hypotheken-und Wechsel Bank, 10 percent; Credit du Nord, 10 percent; Privatbanken: Kjobenhavn, 10 percent; Sveriges Kreditbank, 10 percent; Williams and Glyn's Bank, Ltd., 10 percent.
First National Bank of Boston, 20 percent	International Factors Ltd	Lloyds & Scottish, 70 percent.
First National City Bank, New York	Fuji National City Consulting, Ltd., Tokyo	Fuji Bank Ltd., Tokyo.
First National City Bank	Fuyo General Lease Co	Fuji Bank.
First National City Bank, 40 percent	National & Grindlays Bank, London	Lloyds Bank Ltd., 24.72 percent.
First National City Bank	Midland-Citibank Factors, Ltd., England	Midland Bank.
Do	First Overseas Credit, Ltd., Singapore	Overseas Chinese Banking Corp.
Do	Philips First City Brandts, Australia	National & Grindleys.
First National Bank of Chicago, 20 percent	Commercial Bank of Wales, Cardiff	Hambros, 2 percent.
First National Bank, Chicago; Irving Trust Company, New York	International Commercial Bank, Ltd., London	Commerzbank A. G., Duesseldorf; Hong Kong & Shanghai Banking Corp., Hong Kong.
Irving Trust Company, New York; Crocker National Bank, San Francisco.	Australian International Finance Corp., Ltd., Melbourne	Australia & New Zealand Banking Group, Ltd., Melbourne; Bank of Montreal, Canada; Mitsubishi Bank Ltd., Tokyo.
Manufacturers Hanover Trust Co., New York, 75 percent	Manufacturers Hanover, Ltd., London	N. M. Rothschild & Sons, London, 10 percent; Ruinione Adriatica di Sicurta, Milan, 10 percent; Long-Term Credit Bank of Japan, Tokyo, 5 percent.
Manufacturers Hanover Trust Co	Development Finance Corp., Ltd., Australia	Lehman Bros., London; Hill, Samuel & Co., Ltd., London; N. M. Rothschild & Son, Ltd., London.
Marine Midland Bank, New York	Compagnie Financiere de l'Union Europeene, Paris	Schneider, S.A., Banque l'Indochine, Paris, Empain Group.
Do	Banque de l'Union Europeene, Paris	Banque de Bruxelles Bayerische Vereinsbank, Munich, Banque Commerciale de Bale, Basle, Bank Mees & Hope, Amsterdam, Hambros Bank, London; La Centrale Finanziaria Generale, Milan; Societe Financiere Desmerais pour l'Industrie et les Commerce, Paris.
Do	Interunion-Banque, Paris	Banque de l'Union Europeene, Paris; Banque de Bruxelles Bayerische Vercinsbank, Munich; Banque Commerciale de Bale, Basle; Bank Mees & Hope, Amsterdam; Hambros Bank, London; La Centrale Finanziaria Generale, Milan; Societe Financiere Desmerais pour l'Industrie et les Commerce, Paris; Royal Bank of Canada.
Do	International Bank for Commerce and Industry, Istanbul, Turkey	Yapi ve Kredi Bankasi, Istanbul; Banque de l'Union Europeene, Paris; Societe Centrale de Banque.
Marine Midland Bank, New York, Brown Brothers, Harriman & Co., New York.	Arawak Trust Company (Cayman) Ltd., Arawak Trust Company, Nassau.	Canadian Imperial Bank of Commerce. Kleinwort Benson & Company, London; Bank of Bermuda; Goldman Sachs & Co., New York; C. Boare & Co.
Marine Midland Bank, New York	L'Union Internale de Financement et de Participation, France	Banque de Bruxclles, Brussels; Bayerische Vereinsbank, Munich; Banque Commercial de Bale, Basle; Bank Mees and Hope, Amsterdam; La Centrale Financiaria, Italy; Societe Financiere Desmarais pour l'Industrie et le Commerce, France; Royal Bank of Canada.
Mercantile Trust Co. NA., St. Louis; Indiana National Bank, Indianapolis; Maryland National Bank, Baltimore; First Western Bank & Trust Co.; First National Bank of Atlanta.	London Interstate Bank, Ltd	Keyser-Ullmann, Ltd., London.

See footnote at end of table.

APPENDIX B—Continued

JOINT INVESTMENTS OF U.S. AND FOREIGN BANKS[1]—Continued

U.S. shareholder(s)	Affiliate(s)	Foreign shareholder(s)
Morgan Guaranty Trust Co., New York	Morgan & Cie. S.A., France	Morgan Grenfell & Co., Ltd.; Mees & Hope; Enskilda Bank.
Do	Australian United Corporation, Ltd	Charterhouse, Japhet, London; Lazard Bros., London; Lazard Freres & Co., New York; Morgan Grenfell & Co., Ltd.; Australian United Investment Bank of New South Wales; Ian Potter & Co.; various shareholders.
Do	Societe Ivoirienne de Banque	Credit Lyonnais; Banca Commerciale Italiana; Deutsche Bank.
Do	Societe Camerounnaise de Banque	Credit Lyonnais; Deutsche Bank; Banca Commerciale Italiana.
Do	Banque Commerciale Congolaise, Brazzaville	Credit Lyonnais.
National Bank of Detroit	Investment and Merchants Finance Company, Australia	Royal Bank of Canada.
National Bank of Detroit; Wells Fargo Bank NA, San Francisco; Security Pacific National Bank, Los Angeles.	Western American Bank (Europe) Ltd	Hambros Bank.
National City Bank, Cleveland 11.37 percent, Seattle-First National Bank 11.37 percent, First City National Bank of Houston 11.37 percent.	Rothschild Intercontinental Bank, Ltd. London	Rothschild Five Arrows Group: 45.4 percent: N. M. Rothschild & Sons, London, Banque Rothschild, France, Pierson, Heldring & Pierson, Netherlands, Banque Lambert, Belgium, Banque Privee Switzerland; Industrial Bank of Japan, 11.37 percent; Others.
Philadelphia National Bank	Banque Worms & Cie, S.A., France	Worms Group: Lloyds & Bolsa International Ltd., London; Bank of Scotland; Hessische Landesbank Girozentrale.
Philadelphia National Bank 9.9 percent	Arbuthnot Latham Holdings, London	Chartered Bank 9.5 percent.
Philadelphia National Bank 18 percent	Western Credit Holding, London	Arbuthnot Latham 22 percent.
Republic National Bank, New York		Trade Development Bank, Geneva.
Union Bank, Los Angeles; Central National Bank of Cleveland	Banque Occidentale pour l'Industrie et de Commerce, Paris	Generale Occidentale, Paris.
United California Bank, Los Angeles; National Shawmut Bank, Boston; Manufacturers National Bank, Detroit; First Pennsylvania Bank & Trust Co., Philadelphia.	Atlantic International, Bank	Banco di Napoli, Italy; Banque de Neuflize, Schlumberger Mollet, Paris; F. Van Landschot Bankiers, Amsterdam; Charterhouse Japhet Ltd.

[1] Compiled by staff, House Banking, Currency and Housing Committee from various sources.

APPENDIX C

FOREIGN BANKS WITH U.S. SECURITIES AFFILIATIONS AND THEIR U.S. BANK PARTNERS IN JOINT VENTURES

Foreign bank	U.S. investment company affiliate of foreign bank	U.S. bank partner in overseas joint venture
Algemene Bank Nederland N.V., Amsterdam.[1]	ABD Securities Corp. New York, Boston (25 percent).	Bank of America, San Francisco.
Amsterdam-Rotterdam Bank N.V., Amsterdam.[1]	SoGen-Swiss International Corp., New York.	
Banca Commerciale, Italiana, Milan[1]	Model, Roland & Co., Inc. New York	Morgan Guaranty Trust Co. (2) N.Y.
Banco Ambrosiano, Milan	Ultrafin International Corp., New York	Bank of America, San Francisco; Brown Brothers Harriman & Co. N.Y., First National Bank of Minneapolis; Pittsburgh National Bank.
Banco di Roma, Rome[1]	Europartners Securities Corp., New York.	
Bank Leumi, Le-Israel B.M. Tel Aviv[1]	Leumi Securities Corp., New York	
Bank of Tokyo Ltd., Tokyo[1]	Nomura International Inc., New York, Los Angeles, and San Francisco (5 percent).	Bank of America, San Francisco.
Banque de Bruxelles, Brussels	ABD Securities Corp., New York, Boston (25 percent).	Bank of America, San Francisco; Chase Manhattan Bank, New York; Marine Midland Bank—New York (3).
Banque de L'Indochine, Paris[1]	Suez American Corp., New York (50 percent).	Bankers Trust Co., New York (4); Continental Illinois N.B. & T.C., Chicago; Marine Midland Bank—New York.
Banque de Paris et des Pays-Bas, Paris.	Becker & Warburg-Paribas Group, Inc., Chicago.	Bank of America, San Francisco.
Banque de Suez et de l'Union des Mines, Paris.	Suez American Corp., New York (50 percent).	Brown Brothers Harriman & Co., New York.
Banque Lambert, Brussels	New Court Securities Inc., New York	Bank of America, San Francisco (2); National City Bank, Cleveland; Seattle First National Bank; First City National Bank of Houston.
Banque Rothschild, Paris	New Court Securities Corp., New York	National City Bank, Cleveland; Seattle-First National Bank; First City National Bank of Houston.
Bayerische Hypotheken/und Wechsel—Bank, Munich.	ABD Securities Corp., New York, Boston (25 percent).	Crocker National Bank, San Francisco.
Commerzbank A. G., Frankfurt/Main[1]	Europartners Securities Corp., New York.	Bank of America, San Francisco; First National Bank of Chicago; Irving Trust Co., New York.
Credit Lyonnais, Paris[1]	Europartners Securities Corp., New York.	Continental Illinois N.B. & T.C., Chicago; Morgan Guaranty Trust Co., New York.
Daiwa Bank Ltd., Osaka[1]	New Japan Securities Co. Ltd., New York, Los Angeles (6.9 percent); Nomura Securities Co. Ltd., New York, Los Angeles, San Francisco, Honolulu (2.2 percent).	
Deutsche Bank A.G., Frankfurt/Main[1]	UBS-DB Corp., New York (50 percent)	Bank of America, San Francisco; Morgan Guaranty Trust Co., New York (2).
Dresdner Bank A.G., Frankfurt/Main[1]	ABD Securities Corp., New York, Boston (25 percent).	Bank of America, San Francisco; Chase Manhattan Bank, New York (2)
Robert Fleming & Co. Ltd., London	Robert Fleming, Inc., New York (100 percent).	Brown Brothers Harriman & Co. New York.
Fuji Bank Ltd., Tokyo[1]	Nikko Securities International Inc., New York, Los Angeles, San Francisco (2.3 percent); Yamaichi International (America) Inc., New York, Chicago, Los Angeles (8.5 percent).	First National City Bank, New York.
Hill Samuel & Co., Ltd, London	Hill Samuel Securities Corp., New York (100 percent).	Manufacturers Hanover Trust Co., New York.
Industrial Bank of Japan, Tokyo[1]	Daiwa Securities (America) Inc., New York, Los Angeles (3.4 percent); New Japan Securities International Inc., New York, Los Angeles (9.4 percent); Nikko Securities International Inc., New York, Los Angeles, San Francisco (2.3 percent); Nomura Securities International, Inc., New York, Los Angeles, San Francisco, Honolulu (2.1 percent); Yamaichi International (America) Inc., New York, Chicago, Los Angeles (8.5 percent).	

See footnote at end of table.

FOREIGN BANKS WITH U.S. SECURITIES AFFILIATIONS AND THEIR U.S. BANK PARTNERS IN JOINT VENTURES—Continued

Foreign bank	U.S. investment company affiliate of foreign bank	U.S. bank partner in overseas joint venture
Kleinwort Benson Ltd., London	Kleinwort Benson, Inc., New York, Chicago (100 percent).	Bank of America, San Francisco; Brown Brothers Harriman & Co., New York; Marine Midland Bank, New York.
Kredietbank, Brussels	Ultrafin International Corp., New York	Brown Brothers Harriman & Co., New York; Continental Illinois N.B. & T.C., Chicago; First National Bank of Minneapolis; Pittsburgh National Bank.
Long Term Credit Bank of Japan, Tokyo.	Daiwa Securities (America) Inc., New York, Los Angeles (3.4 percent).	Manufacturers Hanover Trust Co., New York.
Mitsubishi Bank, Ltd., Tokyo [1]	Nikko Securities International Inc., New York, Los Angeles, San Francisco (2.5 percent); Yamaichi International (America) Inc., New York, Chicago, Los Angeles (8.5 percent).	Chase Manhattan Bank, New York (3); Crocker National Bank, San Francisco; Irving Trust Co., New York.
Mitsubishi Trust & Banking Co., Ltd., Tokyo.[1]	Nikko Securities International, Inc., New York, Los Angeles, San Francisco (2.3 percent).	
Mitsui Trust and Banking Co., Ltd., Tokyo.[1]	Nikko Securities International, Inc., New York, Los Angeles, San Francisco (2.3 percent).	
Pierson, Heldring & Pierson, Amsterdam.	New Court Securities Corp., New York	National City Bank, Cleveland; Seattle-First National Bank; First City National Bank of Houston.
N. M. Rothschild & Sons, London	New Court Securities Corp., New York	Manufacturers Hanover Trust Co., New York (2); National City Bank, Cleveland; Seattle—First National Bank; First City National Bank of Houston.
Rothschild Bank A. G., Munich	New Court Securities Corp., New York	
Sanwa Bank Ltd., Osaka [1]	Nomura Securities International, Inc., New York, Los Angeles, San Francisco, Honolulu (2.1 percent).	
Societe Generale (France), Paris [1]	SoGen-Swiss International Corp., New York.	Bankers Trust Co., New York (4).
Societe Generale Alsacienne de Banque, Strasbourg.	SoGen-Swiss International Corp., New York.	
Societe Generale de Banque, Brussels [1]	SoGen-Swiss International Corp., New York.	
Sumitomo Bank, Ltd., Osaka [1]	Daiwa Securities (America), Inc., New York, Los Angeles (4.2 percent).	Bank of America, San Francisco.
Sumitomo Trust & Banking Co. Ltd., Osaka.	Daiwa Securities (America), Inc., New York, Los Angeles (3.5 percent); New Japan Securities International, Inc., New York, Los Angeles (9 percent).	
Swiss Bank Corp., Basle [1]	Baslo Securities Corp., New York (100 percent).	Chase Manhattan Bank, New York; Continental Illinois N.B. & T.C., Chicago (2).
Swiss Credit Bank, Zurich [1]	Swiss American Securities, Inc., New York (100 percent); SoGen-Swiss International, New York.	Bankers Trust Co., New York (4); Chemical Bank, New York; Northern Trust Co., Chicago.
Tokai Bank Ltd., Nagoya [1]	Nikko Securities International, Inc., New York, Los Angeles, San Francisco (2.3 percent).	
Union Bank of Switzerland, Zurich	UBS-DB Corp., New York (50 percent)	Bank of America, San Francisco; Chemical Bank, New York.
S.G. Warburg & Co., Ltd., London	Becker & Warburg—Paribas Group, Chicago (25 percent).	

[1] Foreign banks engaged in both banking and securities activities in the United States.

Note: Number after U.S. bank indicates more than 1 joint investment with the foreign bank.

Source: Compiled from various sources.

APPENDIX D

GEOGRAPHIC AREAS IN WHICH U.S. AND FOREIGN BANKS WITH JOINT INVESTMENTS HAVE OVERLAPPING ACTIVITIES*

Foreign shareholders	Affiliate	U.S. shareholder
Banque Lambert, Brussels [FWR: 270]. Banque Nationale de Paris [FWR: 4] U.S. representation: banking subsidiary in San Francisco (French Bank of California), with a branch in Los Angeles, banking subsidiary in N.Y. (French-American Banking Corp., which has a New York subsidiary, French American Capital Corp.): branch in Chicago, agency in San Francisco; representative office in New York. Commerzbank A.G., Duesseldorf [FWR; 31] U.S. representation: investment banking affiliate (owns ⅓ interest in Europartners Securities Corp., New York, together with Banco di Roma and Credit Lyonnais, Paris), branch in New York.	Societe Financiere pour les Pays d'Outre Mer (SFOM), Zurich. SFOM owns United Overseas Bank, Geneva, which operates the following banks in Africa: Banque Commerciale de Burundi, Bujumbara; Banque Internationale pour le Commerce et l'Industrie du Cameroun, Yaounde; Banque Internationale pour le Commerce et l'Industrie du Congo, Brazzaville; Banque Internationale pour le Commerce et l'Industrie de la Cote d'Ivoire, Abidjan; Commercial Bank of Africa, Ltd., Nairobi, Kenya; Banque Commerciale du Rwanda, Vigali, Banque Internationale pour le Commerce et l'Industrie du Senegal, Dakar, and Barclays Bank, Ltd., Kampala, Uganda.	Bank of America NT&SA, San Francisco [FWR: 1]. A 34.56-percent ownership in SFOM is held jointly by the bank's Edge Act subsidiary and Banca d'America e Italia, Milan, which is 97 percent owned by the Edge Act subsidiary. The bank's overseas representation in relation to domestic offices of the affiliate and other shareholders is as follows: branches in Brussels and Antwerp, Belgium; Lyon, Marseilles, and Paris, France; Duesseldorf, Frankfurt, and Munich, Germany; and Zurich, Switzerland; banking subsidiary in Germany and 2 affiliates in France.
Banca Nazionale dell'Agricoltura, Rome [FWR: 108] representative office in New York. Banco Ambrosiano, Milan [FWR: 141]. Investment bankers subsidiary in New York.	Banca per Finanziamenti a Medio Termine S.p.A., Milan, a commercial bank.	Bank of America NT&SA, San Francisco [FWR: 1], owns 14.366 percent through Banca d'America e d'Italia, Milan which is 90.84 percent owned by Bank of America, New York, the bank's Edge Act subsidiary. Branches, subsidiaries and affiliates in Italy.
Commercial Banking Company of Sydney [FWR: 171].	Commercial and General Acceptances Ltd., Sydney, a finance corporation.	Bank of America NT&SA, San Francisco [FWR: 1], the bank owns 20 percent through Bank of America, New York, and 0.005 percent through Barnerical International Finance Corp., its 2 Edge Act subsidiaries. The bank has other affiliates in Australia.
Bank of Tokyo, Ltd., Tokyo [FWR: 35]. A banking and trust subsidiary in San Francisco with 17 offices in 12 other cities in California, a trust subsidiary with 4 branches in New York City; a banking affiliate in Chicago; a branch in Portland; agencies in Los Angeles, San Francisco, New York and Seattle, and representative offices in Washington, D.C., Chicago, and Houston. Bank of New South Wales, Sydney [FWR: 65]. Representative offices in San Francisco and New York City.	Partnership Pacific Ltd., Sydney, a finance company.	Bank of America NT&SA, San Francisco [FWR: 1] owns 33.3 percent. Branches in Kobe, Osaka, Tokyo, and Yokohama, Japan; affiliates in Japan and Australia; Edge subsidiary in New York.
Royal Bank of Canada Montreal [FWR: 17]. A trust subsidiary and agency in New York; a branch in the U.S. Virgin Islands; an agency in San Francisco and representative offices in Los Angeles, Chicago, and Dallas.	Banco Real do Canada, S.A., Rio de Janeiro, Brazil, a commercial bank.	Bank of America NT&SA [FWR: 1], San Francisco, 50 percent directly owned by the bank. The bank's holding company owns a subsidiary in in Vancouver, B.C., Canada.
Dresdner Bank A.G., Duesseldorf [FWR: 14]. Owns 25 percent of a securities firm, ABD Corp., with offices in New York and Boston; branch in New York; representative office in Los Angeles. Algemene Bank Nederland N.V., Amsterdam [FWR: 57]. Owns 25 percent of a securities firm, ABD Corp., with offices in New York and Boston. Branch in New York, representative offices in San Francisco and New York.	Societe Financiere Europeene Luxembourg. A financial holding company which owns Societe Financiere Europeene, Paris, a merchant bank which also provides advisory services for mergers and acquisitions. In 1971 its 7 equal partners had combined resources of $74 billion. Sumitomo became the 8th partner in October 1972.	Bank of America, San Francisco [FWR: 1] owns 14.28 percent of the holding company and has an additional 10.71 percent in its subsidiary, SFC, Paris through its Edge Act subsidiary, Barnerical International Financial Corp. Branches in Brussels and Antwerp, Belgium; Birmingham, London (2) and Manchester, England; Lyon, Marseilles, and Paris, France; Duesseldorf, Frankfort, and Munich, Germany; Kobe, Osaka, Tokyo, and Yokohama, Japan; Amsterdam and

See footnote at end of table.

GEOGRAPHIC AREAS IN WHICH U.S. AND FOREIGN BANKS WITH JOINT INVESTMENTS HAVE OVERLAPPING ACTIVITIES*—Continued

Foreign shareholders	Affiliate	U.S. shareholder
Barclays Bank Ltd., London [FWR: 6]. Owns a banking subsidiary with head office in San Francisco and 26 branches in 14 California cities; a banking subsidiary in New York; with 2 branches; 1 branch in Boston, 1 in Chicago and 1 in the U.S. Virgin Islands; an agency in San Francisco. Banque de Bruxelles [FWR: 73]. Owns 25 percent of a securities firm, ABD Corp., with offices in New York and Boston. Representative office in New York. Banca Nazionale del Lavoro, Rome [FWR: 11]. Subsidiary, branch and representative office in New York. Banque Nationale de Paris [FWR: 4]. Banking subsidiary and agency in San Francisco; banking subsidiary in New York, representative offices in Los Angeles and New York. Sumitomo Bank Ltd., Osaka [FWR: 13]. Banking subsidiary in California with 14 offices, banking affiliate in Honolulu; agencies in San Francisco and New York, and a representative office in Chicago.		Rotterdam, Netherlands. Merchant banking and factoring subsidiaries in London, banking subsidiary in Germany; banking subsidiary, Banca d'America e d'Italia [FWR: 158], and representative office in Milan, Italy; subsidiary in the Netherlands; affiliates in France (2) and Japan (2). Edge Act subsidiary in New York.
Kleinwort Benson & Co., London [FWR: 216]. Investment Banking subsidiary in New York.	Bank of America Ltd., London, merchant bank.	Bank of America NT&SA San Francisco owns 75 percent directly. An additional subsidiary and 2 branches in London; branches in Birmingham and Manchester, England; Edge Act subsidiary in New York.
Banque de Paris et Pays Bas, Paris [FWR: 153], 40 percent. New York subsidiary: Paribas Corp., a New York securities firm.	Banque Ameribas, Luxembourg. A merchant bank with an office in Paris.	Bank of America NT&SA, San Francisco [FWR: 1], owns 29 percent; its holding company (Bankamerica Corp.) owns 11 percent and the bank's wholly owned subsidiary, Bank of America (Luxembourg) owns 20 percent for a total of 60 percent. Branches in Lyon, Marseilles, and Paris, France; 2 affiliates in Paris; a holding company affiliate in Luxembourg; Edge Act subsidiary in New York.
Toronto Dominion Bank, Toronto [FWR: 63]. Banking subsidiary and agency in San Francisco, trust subsidiary and agency in New York; representative offices in Los Angeles, Chicago, and Houston. Banque Lambert, Brussels [FWR: 276]. Banque Nationale de Paris [FWR: 4]. Banking subsidiary and agency in San Francisco; banking subsidiary and representative offices in New York; branch in Chicago. Commerzbank A.G., Duesseldorf [FWR: 31]. Investment banking affiliate, and branch in New York. Skandinaviska Enskilda Banken, Stockholm [FWR: 85]. Firma von Lanschot, Amsterdam [FWR: 419]. J. Clifford Folger.	World Banking Corp., Nassau [FWR: 592].	Bank of America NT&SA, San Francisco owns 49.9 percent through its Edge Act subsidiary, Bank of America, New York [FWR: 1]. Branches in Brussels and Antwerp, Belgium; Lyon, Marseilles, and Paris, France; Duesseldorf, Frankfort, and Munich, Germany; Amsterdam and Rotterdam, Netherlands. Banking subsidiary in Germany; subsidiary in the Netherlands; affiliates in Canada (2) and France (2). Edge Act subsidiary in New York.
Banque de Paris et Pays Bas [FWR: 153]. 50 percent.	Ameribas Holdings S.A. A holding company which holds 0.17 percent of the shares of its French parent holding company and 0.006 percent of the shares of its American parent. It also holds 7 percent of the shares of General Lease Co., Osaka, which is 10 percent owned by other subsidiaries of Bank of America.	Bank of America NT&SA owns 50 percent through its Edge Act subsidiary, Bamerical International Finance Corp.
National Westminster Bank, Ltd., London [FWR: 5]. Partner as of December 1970. U.S. representation: branch and representative office in New York City; branch in Chicago, agency in San Francisco.	Orion Banking Group Ltd., London: (a) Orion Multinational Services; (b) Orion Bank, Ltd. [FWR: 732]; (c) Orion Termbank. Formed in 1970 and jointly capitalized at $48 million.	Chase Manhattan Bank NA, New York [FWR: 3]. Partner as of December 1970. 1971 shareholdings: 20 percent in (a) held by the Edge Corp., 23.2 percent in (b) held by the bank's holding company, Chase Manhattan

See footnote at end of table.

GEOGRAPHIC AREAS IN WHICH U.S. AND FOREIGN BANKS WITH JOINT INVESTMENTS HAVE OVERLAPPING ACTIVITIES*—Continued

Foreign shareholders	Affiliate	U.S. shareholder
Royal Bank of Canada, Montreal [FWR: 17]. Partner as of December 1970. U.S. representation; subsidiary in New York City, branch in the U.S. Virgin Islands, agencies in New York City and San Francisco, representatives in Los Angeles, Chicago, and Dallas. Westdeutsche Landesbank Girozentrale, Duesseldorf, [FWR: 15]. Partner as of December 1970. U.S. representation: representative in New York City. Credito Italiano, Milan [FWR: 36]. Partner as of September 1971. U.S. representation: branch and representative in New York City. Mitsubishi Bank Ltd., Tokyo [FWR: 16]. Partner as of April 1972. U.S. representation: subsidiary in Los Angeles, agencies in Los Angeles and New York City, representative in Chicago.		Corp., and 23.2 percent in (c) held by the Edge Corp. Overseas representation where partners have domestic offices: London, 3 branches, 1 banking affiliate, 1 trust, and 1 investment affiliate: Montreal, investment subsidiary; Duesseldorf, branch; Milan, branch; Tokyo, branch, investment affiliate. Edge Act subsidiaries in New York City; (2) and Los Angeles.
Standard & Chartered Banking Group Ltd. [FWR: 55], a holding company for the 2 English banks represented by 1,200 offices in sub-Sahara Africa and 193 offices throughout Europe, the Middle East, and Asia.	Chartered Bank Ltd., London [FWR: 136]. Banking subsidiary in California (San Francisco, Los Angeles, and Oakland), agency in San Francisco, 2 branches in New York. Standard Bank, Ltd., London [FWR: 97]. Agency in New York.	Chase Manhattan Bank NA, New York [FWR: 3], holds 13.8 percent through its Edge Corp. 3 branches, trust, investment and multinational banking affiliates in London; an Edge Act subsidiary in Los Angeles.
Dresdner Bank A.G., Frankfort [FWR: 14]. U.S. representation: holds 25 percent interest in a securities firm in New York which has a branch in Boston; Branch in New York and representative office in Los Angeles.	Banco del Comercio, Bogota, Colombia. A commercial bank with $2.7 million in equity investments in financial and nonfinancial companies in Colombia.	Chase Manhattan Bank NA, New York [FWR: 3], holds 30.4 percent directly and an additional 12.7 percent through its Edge subsidiary. Representation in Germany, 5 branches.
Blanque de Bruxelles, Brussels, Belgium [FWR: 73]. U.S. representation holds 25 percent in a New York securities firm which has a branch in Boston, representative office in New York.	Banque de Commerce, SA, Antwerp, Belgium.	Chase Manhattan Bank NA, New York [FWR: 3], owns 49.3 percent. The bank has no other interests in Belgium.
Dresdner Bank AG, Frankfort [FWR: 14]. U.S. representation: holds 25 percent interest in a securities firm in New York which has a branch in Boston; branch in New York and representative office in Los Angeles.	Inversiones Atlantida S.A., Tegucigalpa, Honduras. A holding company which owns 95.6 percent of Banco Atlantida S.A., Tegucigalpa, a commercial bank with $1.9 million in equity holdings in financial and nonfinancial companies in Honduras.	Chase Manhattan Bank NA, New York [FWR: 3], holds 53.4 percent of the holding company. Representation in Germany: 5 branches.
National Bank of Greece, Athens [FWR: 116]. U.S. representation: affiliate, Atlantic Bank of New York, New York City; branch in Chicago.	National Investment Bank for Industrial Development, Athens.	Manufacturers Hanover Trust Co., New York [FWR: 21], holds 4.2 percent through its Edge Corp. Chase Manhattan Bank NA, New York [FWR: 3], holds 7 percent through its Edge Corp. 2 branches in Athens, 1 in Piraeus, and 1 in Salonica.
National Bank of Australasia, Ltd., Melbourne [FWR: 113]. U.S. representation: New York representative office.	Chase-N.B.A. Group Ltd., Melbourne, Australia.	Chase Manhattan Bank NA, New York [FWR: 3], holds 33.3 percent through its Edge Corp. It holds a number of equity investments in other financial and nonfinancial institutions in Australia.
Euro-Americana de Financiacion e Inversiones, S.A., Spain. Standard and chartered Banking Groups Ltd., London, England [FWR: 55]. U.S. representation: banking subsidiary in San Francisco, 2 branches in New York, agencies in New York and San Francisco. Banco Hispano-Americano, Madrid [FWR: 86]. Other spanish stockholders.	Liga Financiera, S.A., Madrid. An investment company.	Chase Manhattan Bank NA, New York [FWR: 3] owns 30.2 percent through a Bahamian subsidiary of an Edge Act subsidiary. The bank has no other interests in Spain but holds a 13.8 percent interest in Standard and Chartered Banking Group through an Edge Act subsidiary.
Mitsubishi Bank Ltd., Tokyo [FWR: 16]. U.S. representation banking subsidiary in Los Angeles, agencies in Los Angeles and New York, representative office in Chicago.	Diamond Lease Co., Tokyo	Chase Manhattan Bank NA, New York [FWR: 3] holds 10 percent through an Edge Act subsidiary. An additional 15 percent is held by the bank's holding company. The bank has 2 branches in Japan, in Tokyo and Osaka.

See footnote at end of table.

GEOGRAPHIC AREAS IN WHICH U.S. AND FOREIGN BANKS WITH JOINT INVESTMENTS HAVE OVERLAPPING ACTIVITIES*—Continued

Foreign shareholders	Affiliate	U.S. shareholder
Schneider, S.A. Banque de l'Indochina, Paris [FWR: 255.] An underwriting subsidiary in N.Y., branch in Chicago. Empain Group.	Compagnie Financiere de l'Union Europeene (CFUE), Paris. A holding company which owns 7 percent of Banque de l'Union Europeene (BUE) (see below).	Marine Midland Bank, New York, N.Y [FWR: 78]. Branch and 4 affiliates in Paris.
Banque de Bruxelles [FWR: 73]. Owns 25 percent of a securities firm with offices in New York and Boston; representative office in New York. Bayerische Verainsbank, Munich [FWR: 37]. Branch, in New York. Banque Commerciale de Bale, Basle. Bank Mees & Hope, Amsterdam [FWR: 238]. Subsidiary and representative office in New York. Hambros Bank, London [FWR: 189]. La Centrale Finanziaria Generale, Milan. Societe Financiere Desmerais pour l'Industrie et les Commerce, Paris.	Banque de l'Union Europeene (BUE), Paris [FWR: 311]. A commercial and investment bank 70 percent owned by Compagnie Financiere de l'Union Europeene (CFUE) (see above) It has a financial services affiliate, Union Auxilaire de Financement, S.A. (UNIMAR). Paris, which it owns jointly with Marine Midland Bank—New York, and an investment affiliate, Interunion Banque, Paris, in which it shares an interest with its shareholders. It also has an interest in the International Bank for Commerce & Industry, Istanbul, in which Marine Midland also has an interest (2 percent). Representative office, New York.	Marine Midland Bank, N.Y. [FWR: 78], 20 percent. Branch and 4 affiliates in Paris; branch and merchant banking and nominee subsidiaries in London; representative office and consumer credit and commercial banking affiliates in Frankfort and Duesseldorf, finance affiliate (in which La Centrale Finanziara Generale also has an interest) in Milan.
Banque de l'Union Europeene (BUE), Paris [FWR: 311]. A commercial and investment bank 70 percent owned by Compagnie Financiere de l'Union Europeene (CFUE). It has a financial services affiliate, Union Auxiliaire de Financement, S.A. (UNIMAR), Paris, which it owns jointly with Marine Midland Bank—New York, and an investment affiliate, Interunion Banque, Paris, in which it shares an interest with its shareholders. It also has an interest in the International Bank for Commerce & Industry, Istanbul, in which Marine Midland also has an interest (20 percent). Representative office, New York. Banque de Bruxelles (a shareholder in BUE) [FWR: 73]. Owns 25 percent of a securities firm with offices in New York and Boston; representative office in New York. Bayerische Vereinsbank, Munich (a shareholder in BUE) [FWR: 37]. Branch office in New York. Banque Commerciale de Bale, Basle (a shareholder in BUE). Bank Mees & Hope, Amsterdam (a shareholder in BUE) [FWR: 238]. Subsidiary and representative office in New York. Hambros Bank, London (a shareholder in BUE) [FWR: 189]. La Centrale Finanziaria Generale, Milan (a shareholder in BUE). Societe Financiere Desmerais pour l'Industrie et les Commerce, Paris (a shareholder in BUE). Royal Bank of Canada [FWR: 17]. Trust subsidiary and agency in New York; branches in Puerto Rico and U.S. Virgin Islands; representative offices in Los Angeles, Chicago, and Dallas.	Interunion-Banque, Paris, an intermediate and long-term bank and investment institution.	Marine Midland Bank—New York [FWR: 78] 20.47 percent, with an additional indirect interest through its holdings in CFUE and BUE. Branch and 4 affiliates in Paris; branch and merchant banking and nominee subsidiaries in London; representative office and consumer credit and commercial banking affiliates in Frankfort and Duesseldorf, Germany, a finance affiliate (in which La Centrale Finanziara Generale also has an interest) in Milan.
Yapi ve Kredi Bankasi, Istanbul [FWR: 413]. Banque de l'Union Europeene, Paris [FWR: 311]. Societe Centrale de Banque.	International Bank for Commerce and Industry (Uluslararasi Endustri ve Ticaret Bankasi A.S.), Istanbul, Turkey. A privately owned commercial bank.	Marine Midland Bank—New York, N.Y. [FWR: 78] Owns 23.9 percent but has an additional interest through its 20 percent holding in Banque de l'Union Europeene (BUE) and interest in CFUE, the holding company for BUE. In addition, the bank has interests in 2 affiliates of BUE in Paris, has 2 other affiliates and a branch in Paris.
Canadian Imperial Bank of Commerce [FWR: 24]. Banking subsidiary, agency and representative office in	Arawak Trust Co. (Cayman) Ltd. Arawak Trust Co., Nassau Bahamas.	Brown Brothers Harriman & Co., New York. Branch in Nassau, affiliate in London.

See footnote at end of table.

GEOGRAPHIC AREAS IN WHICH U.S. AND FOREIGN BANKS WITH JOINT INVESTMENTS HAVE OVERLAPPING ACTIVITIES*—Continued

Foreign shareholders	Affiliate	U.S. shareholder
California; representative office in Chicago; trust subsidiary and agency in New York, branches in Portland and Seattle; representative office in Dallas.		Marine Midland Bank—New York, N.Y. [FWR: 78]. Branches in Nassau & London, subsidiary in London.
Kleinwort Benson & Co., London [FWR: 216]. Investment banking subsidiary, New York.		
Bank of Bermuda.		
Goldman Sachs & Co., New York.		
C. Boare & Co.		
Robert Fleming & Co., Ltd., London, 33.3 percent. An investment banking subsidiary in New York.	Fleming, Suez, Brown Brothers, London, merchant bank.	Brown Brothers Harriman & Co., New York. 33.3 percent.
Compagnie Financiere de Suez et de l'Union Parisienne, Paris, 33.3 percent. Investment banking subsidiary in New York.		
Fuji Bank Ltd. (Holding company—Fuyo Group of Companies), Tokyo [FWR: 12]. Agency in New York, representative office in Los Angeles.	Fuji National City Consulting Ltd., Tokyo (also—Fuyo General Lease Co., Ltd., Tokyo). The American and Japanese bank each own 50 percent.	First National City Bank, New York (holding company—First National City Corp.) [FWR: 2]. Branches in Camp Zama, Osaka, Nagoya, Tokyo, and Yokohama, Japan. Affiliate: Fuyo General Lease Co., Ltd., Tokyo (20 percent). Edge Act subsidiaries in Los Angeles and San Francisco.
N. M. Rothschild & Sons, London.	Manufacturers Hanover Ltd., London. A merchant bank.	Manufacturers Hanover Trust Co., New York [FWR: 21]. 2 branches and an export credit subsidiary in London; branch and a leasing affiliate in Tokyo.
Ruinione Adriatica di Sicurta, Milan (insurance company).		
Long-Term Credit Bank of Japan. Tokyo [FWR: 36]. Representative office in New York.		
Australia & New Zealand Banking Group Ltd., Melbourne [FWR: 71]. 20 percent. Representative office in New York.	Australian International Finance Corp., Ltd., Melbourne. A merchant bank with capital resources of $7.5 million.	Irving Trust Co. (Edge Act subsidiary) [FWR: 74]. 20 percent. Representative offices in Melbourne and Tokyo.
Bank of Montreal [FWR: 26]. 20 percent. Banking subsidiary and agency in San Francisco; trust subsidiary and agency in New York, representative offices in Chicago and Houston.		Crocker National Bank, San Francisco (direct) 20 percent [FWR: 66]. Representative offices in Melbourne and Tokyo; Edge Act subsidiary in New York.
Mitsubishi Bank Ltd., Tokyo [FWR: 16]. 20 percent. Banking subsidiary and agency in Los Angeles; agency in New York.		
Commerzbank A.G., Duesseldorf, 25 percent [FWR: 31]. ⅓ interest in a New York investment bank, branch and representative office in New York.	International Commercial Bank Ltd. [FWR 375], London, 1967, $35 million capital.	First National Bank, Chicago, 25 percent [FWR 40]. Branches and subsidiary in London, branches in Duesseldorf and Frankfort.
Hong Kong & Shanghai Bkg Corp., Hong Kong, 25 percent [FWR: 80]. Banking subsidiary and agency in California, agency in New York.		Irving Trust Co., New York, 25 percent [FWR 74]. Branch and subsidiary in London, representative office in Hong Kong.
Baring Brothers & Co., London [FWR 562].	London Multinational Bank, London, 1970, $10.4 million capital.	Northern Trust Co., Chicago [FWR 141]. Branch and affiliate in London, 2 affiliates in Switzerland.
Credit Suisse, Zurich [FWR: 62]. Representative office in Los Angeles, securities subsidiary and branch in New York.		Chemical Bank, New York [FWR 27]. branches in London, 1 in Zurich.
Lloyds Bank International Ltd., London [FWR: 91]. Export finance subsidiary and branch in New York, representative office in Pittsburgh.	Banque Worms, Paris [FWR: 283]	Philadelphia National Bank [FWR: 135]. 7.5 percent. Owns 9 percent interest in a merchant bank and has a representative office in London; owns 17 percent interest in a consumer finance company in Plymouth England; Edge Act subsidiary in New York.
Banco di Napoli [FWR 76]. Agency and representative office in New York.	Atlantic International Bank, London. Capitalized at $4.8 million, deposits $107 million.	United California Bank, Los Angeles [FWR: 75]. 12.5 percent. Edge Act. Subsidiary in New York.
Banque de Neuflize, Schlumberger, Mollet, Paris [FWR: 514].		National Shawmut Bank, Boston [FWR: 288]. 12.5 percent.
Charterhouse Japhet Ltd		Manufacturers National Bank, Detroit [FWR: 163]. 12.5 percent.

See footnote at end of table.

GEOGRAPHIC AREAS IN WHICH U.S. AND FOREIGN BANKS WITH JOINT INVESTMENTS HAVE OVERLAPPING ACTIVITIES*—Continued

Foreign shareholders	Affiliate	U.S. shareholder
F. Van. Landschot Bankiers, Amsterdam [FWR: 419].		First Pennsylvania Bank and Trust Co., Philadelphia [FWR: 106]. 12.5 percent.
N. M. Rothschild & Sons London	Rothschild Intercontinental Bank, Ltd., London [FWR 422], a $433 million deposit multinational merchant bank.	National City Bank, Cleveland, 12.5 percent [FWR: 215]. Seattle—First National Bank, Seattle, 12.5 percent [FWR: 133].
Generale Occidentale, Paris	Banque Occidentale pour l'Industrie et de Commerce, Paris. A merchant bank with an associate in the Netherlands—De Occidentale Bank NV, Amsterdam—in which the 2 American banks also own 10 percent each.	Union Bank (Los Angeles) [FWR: 114] 10 percent. Central National Bank of Cleveland [FWR: 262]. 10 percent. Representative office in Paris; Edge Act subsidiary in New York.
	Credit Commercial de France, Paris [FWR: 104]. A $1.3 billion-deposit commercial bank with 234 branches throughout France. Representative office in New York.	Continental Illinois National Bank & Trust Co., Chicago [FWR: 38]. Branch and venture capital affiliate in Paris; Edge Act subsidiary in New York.

*Note: FWR denotes Free World Rank of banks by deposits, Dec. 31, 1973. Percentage of investment is given where available. Compiled from various sources, by staff House Banking, Currency and Housing Committee.

U.S. BANKS ABROAD

U.S. BANKS ABROAD

CHAPTER 1

Introduction

Multinational corporations have received attention and aspects of their activities have become important political issues but interest in international banking has not spread very far beyond the small group who are actually participants in the activity. Only recently has an effort been made to sort out areas where the activities of multinational banks have important effects on public policy in the United States and to determine if those effects are in the public interest.

It is hoped that this study will provide background information for further discussion and analysis of the political and economic effects of international banking. Its principal purpose, however, is to call attention to the impact of overseas activities of U.S. banks on the domestic banking system. The legal and institutional structure of foreign operations, the scale and range of activities and the regulatory and supervisory framework in which they are conducted are discussed in the next four sections of the paper. These are followed by a section covering one of the more important operational areas in international banking—foreign exchange operations. Next are sections describing the activities of the 12 largest multinational banks; some special problem areas involving the so-called "country loans," term lending and the adequacy of capital and an analysis of the Federal Reserve's role as lender of last resort to Franklin National Bank.

Several sections of the study comment on policy issues outside the context of banking regulations and there is a detailed discussion of some of the areas in which multinational banks have played a major role in shaping economic and monetary events. Since banks do have a key role in determining economic conditions, an outline of the development of international banking in the context of monetary and economic events on which it has had a determining influence will be useful as an overview for the material which follows.

The recent development of truly international banking by U.S. banks was preceded by foreign lending by the larger U.S. banks primarily from their home offices using domestic funds. This activity became an important part of their business in the early 1960's. Because their activities contributed to deficits in the U.S. balance of payments, various controls on the extension of foreign credits were imposed, including in 1965 a ceiling on additional foreign lending by U.S. banks. In response to these controls, banks with established foreign business moved overseas, and funded their foreign loans with foreign deposits. The larger banks established branches in London and other major international financial centers.[1] Some banks invested

[1] Three banks—First National City, Bank of America, N.T. & S.A., and Chase Manhattan Bank—already had worldwide networks of branches.

in foreign banks as a way of entering a given banking market and in time, all of the larger banks acquired an interest in a merchant bank, establishing wholly owned subsidiaries or investing with other U.S. or foreign banks in joint ventures.

In the late 1960's the Federal Reserve Board allowed banks to open "shell" branches in the Bahamas. In reality a "shell" branch is a euphemism for Eurocurrency banking operations conducted at the home office. The requirement was that, like branches in London and elsewhere, virtually all loans by the shell branches had to be foreign loans and liabilities had to be foreign liabilities. This would allow international banking to be done at home but without violating capital controls. It also opened up the market to a larger number of banks since the cost of getting a license in Nassau was not great nor was the expense of hiring someone to maintain a set of books which were actually duplicates of records kept at the home office.

The story of the development of the Eurodollar market is a familiar one. It began because the U.S.S.R. had dollar balances acquired during World War II which it did not wish to deposit in U.S. banks for fear the funds would be confiscated to satisfy unpaid loans from the United States. British banks accepted the funds and re-lent them. There was a demand for dollar loans and other countries began to deposit dollar reserves, acquired as a result of U.S. balance of payments deficits, with banks in London. U.S. banks with branches in London attracted a share of these deposits and, after the Voluntary Foreign Credit Restraint Program in 1965 constrained foreign lending from domestic offices, they began to compete vigorously for Eurodollar deposits to continue and expand their foreign business.

In 1966, tight money in the United States made it profitable for the foreign branches to lend their Eurodollar deposits to their home offices for relending to domestic customers. Higher interest rates in the United States after 1966 encouraged foreign branches to continue to lend about one-fourth of their total resources to their parent banks over the next several years. It also encouraged more banks to establish branches in London and in 1969 banks responded to the Federal Reserve's tight money and high interest rate policies by importing about 14 billion Eurodollars for domestic lending.

These funds were loaned by the large international banks to their large corporate customers who could afford the cost. As a result, money remained tight and interest rates high as the Federal Reserve prolonged its efforts to cool the economy. The credit crunch and liquidity problems experienced by other sectors of the economy—especially housing, and state and municipal governments—were quite serious. The Federal Reserve responded by imposing a 10% marginal reserve requirement on additional Eurodollar borrowings by U.S. banks from their foreign branches to discourage a similar inflow of funds in the future. And, recognizing the competitive advantages which the international banks had enjoyed, the Board also agreed to the establishment of the shell branches so that more banks could compete in international markets.

As loan demand and interest rates declined during 1970, U.S. banks repaid a substantial portion of their borrowings to their foreign branches. Without the domestic market as an outlet for lending, the foreign branches had to find new uses for funds.[2] They increased

[2] The Federal Reserve Board had also discouraged loans to U.S. residents other than the parent banks.

their lending to foreign subsidiaries of U.S. multinational corporations, but still had an excess of funds for lending. The availability of dollar loans and lower interest rates on both Eurodollar funds and in the United States, as well as the domestic inflation and recession encouraged expectations that the dollar would be devalued. Speculators borrowed dollars and converted them into assets in other currencies. Central banks in several European countries bought the dollars because they feared the effect of upward revaluation of their currencies on their exports. In so doing, they added substantially to their own money supplies and to their domestic inflation. In the end, the disadvantages of preventing a devaluation of the dollar seemed greater than the advantages and the dollar was devalued.

In the aftermath of these events, a number of European countries imposed exchange controls on inflows or outflows of funds and this served as a brake on expansion of foreign branch activities in 1972. The branches found it difficult to lend to prime customers—subsidiaries of U.S. multinational corporations as well as other multinational firms in developed countries—because of the exchange controls and began to lend to less developed countries and to public and quasi-public institutions in Italy and the United Kingdom—the two developed countries coping with chronic capital outflows.

In 1972 as in 1970, expectations developed that the dollar again would be devalued and speculation again created pressures that made additional devaluation a certainty. But, because of capital controls in European countries, the mechanism this time was somewhat different. The foreign branches did not lend dollars to speculators to be exchanged for foreign currencies by central banks. Foreign branches of U.S. banks borrowed foreign currencies in the international interbank market which was not covered by exchange controls and reloaned the funds to speculators who could not acquire foreign currency assets directly from domestic banks in European countries. They also swapped balances for customers unable to get funds out of domestic markets and for those unable to get funds in by selling deposits to the domestic interbank market or acquiring deposits from domestic banks. But the effect was the same as in 1971. European banks ended up with dollars which they swapped at their central banks for their own currencies.

After the dollar was devalued and floating exchange rates adopted as a result of continuing speculation, 7 European countries put reserve requirements on external liabilities of banks operating in their countries to curb speculative activity through domestic and international interbank markets.[3] This had the effect of greatly reducing the business of branches of U.S. banks in several of those countries and forcing them to rely on the domestic interbank market for funds. Since that time, there has been very little increase in the assets/liabilities of American branches in continental Europe.[4]

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[3] These countries were Germany, Switzerland, France, the Netherlands, Belgium, Luxembourg and Spain.

[4] See Table 5, Chapter 2.

As discussed in Chapter 11. these restrictions were relaxed in January and February 1974 but reintroduced by Switzerland in November of that year. Despite the relaxation, the German Bundesbank and Bank of France still retain discretionary controls in the form of requirements that the use of external funds by domestic residents be approved.

There was a virtual explosion of growth in U.S. bank activities overseas in 1973. Assets of branches grew 56% in that year while the number of U.S. banks' investments in foreign banks, finance, and leasing affiliates rose to 1670 companies in 102 countries from 416 companies in 74 countries in 1971. Some banks were clearly over-extended and events in the following year—problems in financing oil deficits and of recycling OPEC deposits, the after effects of a collapse in property values in Great Britain and the crisis of confidence caused by the failures of Franklin National Bank and Herstatt—hastened a wind-down in international activity and slowed the growth rate of branch assets to 25% for the year.

There was very little growth in international banking activities in 1975 due to the world-wide recession and to the fact that dollar funds used by foreign countries to make oil payments to OPEC countries were largely drawn from the Eurodollar market but a lesser amount was returned to that market. OPEC countries have deposited a substantial amount in the Eurodollar market, but they have also invested heavily in domestic markets, including the United States. Given the shrinkage in foreign funds available for new lending, the foreign branches of U.S. banks relied heavily on their parent banks to supply funds to expand their business in 1975. Branches borrowed $20 billion from U.S. residents in 1975, $12 billion of it from their U.S. parents. This compares with $5.8 billion borrowed from parent banks in 1974 and $1.6 billion in 1973.

Since loan demand was slow in the United States in 1975, it could be argued that the actions of U.S. banks in supplying domestic funds to their overseas branches for foreign lending did no harm to the U.S. economy and positively benefited other countries struggling with the Charybdis of a rise in oil prices and the Scylla of recession. This might be true but the argument would have more weight if we knew to whom and for what those foreign loans were made. There is also evidence for the argument that, in its efforts to attract funds back into the country to counteract outflows to the branches and to improve the exchange rate of the dollar, the Federal Reserve kept interest rates at levels which were sufficiently high to contribute to the lag in loan demand.

The 1975 outflows to the branches are described in other sections,[5] as are other issues noted here. This outline of events is intended as a reference for the more detailed discussions which follow. It is also intended to suggest the growing importance of international banking and its impact on public policy. While foreign activities of U.S. banks have no doubt aided the development of world trade, these activities have also posed important problems for domestic monetary policy and for the stability of the U.S. banking system. These problems will be discussed in greater detail in the following sections.

[5] See chapters 2 and 10.

TABLE 1

Date	Total all currencies	Increase	Percent increase	Payable in in U.S. dollars	Increase	Percent increase	Payable in other currencies	Increase	Percent increase
ASSETS OF FOREIGN BRANCHES OF U.S. BANKS									
December 1970	47, 363			34, 619			12, 744		
December 1971	61, 334	13, 971	30	40, 182	5, 563	16	21, 152	8, 408	65
December 1972	78, 202	16, 868	28	52, 636	12, 454	31	25, 566	4, 414	21
December 1973	121, 866	43, 664	56	79, 445	26, 809	51	42, 421	16, 855	66
December 1974	151, 828	29, 962	25	105, 893	26, 448	33	45, 935	3, 514	08
December 1975	175, 878	24, 050	16	132, 164	26, 271	25	43, 714	−2, 221	−5
LIABILITIES OF FOREIGN BRANCHES OF U.S. BANKS									
December 1970				36, 084			11, 279		
December 1971				42, 090	6, 006	17	19, 244	7, 965	71
December 1972				54, 828	12, 738	30	23, 374	4, 130	21
December 1973				80, 374	25, 546	47	41, 492	18, 118	78
December 1974				107, 813	27, 439	34	44, 015	2, 523	6
December 1975				134, 925	27, 112	25	40, 953	−3, 062	−7

Source: Federal Reserve Bulletin; compiled by committee staff.

CHAPTER 2

Overseas Branches of U.S. Banks

The current scale of U.S. banks' involvement in overseas activities is without historical precedent The assets of foreign branches alone are 15 percent of the total assets of all insured banks in the United States, up from half that amount at year-end 1970. The enormous growth in funds held in foreign branches is graphically illustrated in Chart 1. Branch assets grew 30 percent a year between 1970–1972 and 56% in 1973. Since then the rate of growth has declined, dropping to 25% in 1974 and 15% in 1975. Total assets are now $176 billion and represent a substantial contingent liability on the resources of the domestic banking system.

TABLE 1.—COMPARISON OF ASSETS/LIABILITIES OF FOREIGN BRANCHES AND DOMESTIC OFFICES OF ALL INSURED COMMERCIAL BANKS IN THE UNITED STATES

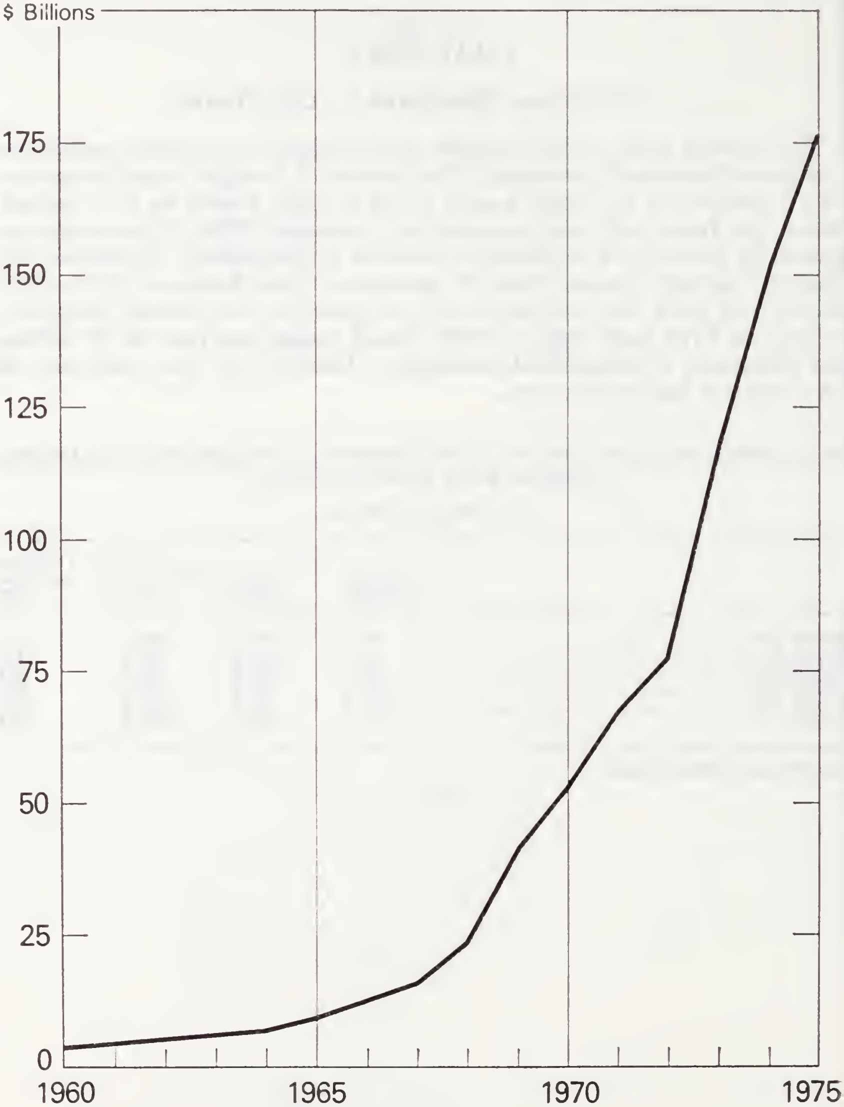
[Dollar amounts in billions]

	Foreign branches	Domestic offices	Total domestic and foreign	Foreign as percent of total
December 1970	$47.4	$572.7	$620.1	7.6
December 1971	61.3	635.8	697.1	8.8
December 1972	80.0	732.5	812.5	9.8
December 1973	121.8	835.2	957.0	12.7
December 1974	151.8	919.4	1,071.2	14.2
June 1975	162.2	898.1	1,060.3	15.3

Source: Federal Reserve Bulletin.

Chart 1 Assets of Overseas Branches of U.S. Banks

1960-1975



Source: Federal Reserve Board

There has been a substantial growth in the number of U.S. banks with foreign branches and the number of countries in which branches of U.S. banks are located. As shown in Table 2, only 11 banks had branches overseas in 1965. A decade later, 125 U.S. banks had 732 branches in 59 foreign countries and in various overseas areas of the United States. Of these 125 banks, 80 have only a single "shell" branch nominally operating in either Nassau or the Cayman Islands and at year-end 1974, their aggregate assets were $4.1 billion or 2.7% of total foreign branch assets. Another 25 banks have branches other than the "shell" branches but have not established branch networks. Together they have 49 branches, with aggregate assets of $8.6 billion, 5.7% of total foreign branch assets. Many have branches in both London and the Caribbean. A few have full-service branches elsewhere.

TABLE 2.—INTERNATIONAL OPERATIONS OF U.S. BANKS: SELECTED INDICATORS, 1960–75

[Monetary magnitudes are in billions of dollars]

Category	1960	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
I. U.S. offices:[1]													
Bank credit to foreigners[2]	$4.2	$9.4	$9.7	$9.6	$9.8	$9.2	$9.3	$9.7	$12.1	$13.4	$17.2	$29.0	$30.5
Foreign deposits[2,3] (other than due to foreign branches)	9.1	13.4	13.6	12.6	14.4	14.7	16.5	16.5	17.1	17.4	21.8	24.2	23.0
Due to foreign branches[4]		1.2	1.3	4.0	4.2	6.0	12.8	7.7	0.9	1.4	2.5	4.5	12.8
II. Overseas branches of banks:[5]													
Number of banks with overseas branches	8	11	13	13	15	26	53	79	91	108	125	125	NA
Number of overseas branches	131	181	211	244	295	375	459	536	583	627	699	732	NA
Assets of overseas branches[6]	$3.5	$6.9	$9.1	$12.4	$15.7	$23.0	$41.1	$52.6	$67.1	$77.4	$118.0	$151.9	S $166.1
III. Edge and agreement corporations:													
Number	15	38	42	49	53	63	71	77	85	92	104	114	NA
Assets	NA	$0.9	$1.0	$1.4	$1.5	$2.5	$3.5	$4.6	$5.5	$6.0	$6.9	NA	NA
Memorandum:													
All commercial banks in United States:													
Total assets	$255.7	$343.9	$374.1	$401.4	$448.9	$498.1	$527.6	$576.2	$640.3	$732.5	$827.1	$906.3	S $898.3
Total deposits	$228.4	$305.1	$330.3	$351.4	$394.1	$432.7	$434.1	$480.9	$537.9	$612.8	$677.4	$741.7	$721.0

[1] All data for U.S. offices are on a balance of payments basis.

[2] Bank credit to foreigners and foreign deposits relate to all commercial banks reporting on the Treasury foreign exchange forms, and include credits and deposits of branches and agencies of foreign banks as well as U.S. banks. Bank credit includes short- and long-term loans and acceptance credits denominated in dollars; for 1960, some other short- and long-term claims are also included. Data for 1972 through 1974 do not include claims on U.S. banks or their foreign branches or claims of U.S. agencies and branches of foreign banks on their head offices.

[3] Foreign deposits include demand and time deposits of 1-year or less maturity, and beginning in 1964, include negotiable certificates of deposit issued to foreigners and international institutions.

[4] Due to branches refers to the gross liabilities due to foreign branches of large U.S. weekly reporting banks.

[5] Overseas branches include branches of member banks in U.S. possessions and territories as well as in foreign countries.

[6] Branch assets include interbranch balances.

Note: N.A. Not avaliable. Data are for end of year through 1973. Data for 1975 are for August (except where footnoted S—end of September).

Sources: Treasury forms B-2 and B-3; Federal Reserve Board.

TABLE 3.—OVERSEAS BRANCHES OF U.S. MEMBER BANKS, 1965–75 (AS OF JAN. 1)

Country of location	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Belgium-Luxembourg	2	4	6	8.	9	11	11	8	8	15	15
France	4	4	4	6	7	11	12	15	17	15	17
Germany	3	6	8	9	14	17	21	22	27	30	30
Greece	1	1	1	2	5	8	9	13	14	16	18
Italy	1	1	1	2	2	3	4	6	7	8	10
The Netherlands	3	3	3	3	5	7	7	7	6	6	6
Switzerland	1	1	2	3	3	6	7	8	8	9	9
United Kingdom	17	21	21	24	32	37	41	45	49	52	55
Total Europe [1]	32	43	48	59	80	103	116	128	142	157	167
Bahamas	2	3	3	3	8	32	60	73	94	91	80
Cayman Islands									2	32	44
Total Caribbean [2]	5	9	9	10	22	53	89	105	133	166	166
Argentina	16	17	17	25	33	38	38	38	38	38	37
Brazil	15	15	15	15	15	15	16	19	21	21	19
Colombia	5	6	6	8	17	23	26	28	28	32	36
Panama	10	12	15	19	21	26	29	29	32	33	33
Total Latin America [3]	78	83	102	133	177	235	281	296	322	356	363
China, Republic of Taiwan		2	2	2	2	2	2	2	3	5	7
Hong Kong	6	6	8	10	12	13	13	15	19	23	24
India	5	6	8	8	11	11	11	11	11	11	11
Indonesia					4	6	6	6	6	6	6
Japan	13	14	14	14	14	15	15	17	21	25	31
Lebanon	3	3	3	3	3	3	3	3	3	3	3
Persian Gulf [4]	2	2	3	3	3	3	8	11	10	10	11
Singapore		8	8	8	8	9	11	11	11	14	18
Total Asia [5]	45	55	63	69	78	83	90	97	109	122	138
Total Africa [6]	3	2	2	3	3	1	2	2	2	2	5
Overseas areas of United States	23	23	29	31	35	37	40	44	47	52	53
Grand total	180	211	244	295	373	460	532	577	627	699	732
U.S. member banks with overseas branches	11	13	13	15	25	53	79	91	107	125	125

[1] Also includes Austria, Ireland, Monaco, and Romania.
[2] Also includes Barbados, Haiti, Jamaica, Netherlands Antilles, Trindad and Tobago, British Virgin Islands, and other West Indies.
[3] Also includes Bolivia, Chile,* Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Mexico, Paraguay, Peru, Uraguay, and Venezuela.
[4] Includes Bahrain, Qatar, Saudi Arabia, and United Arab Emirates.
[5] Also includes Brunei, Israel, Korea, Malaysia, Pakistan, Phillippines, Thailand, and Vietnam.
[6] Includes Liberia, Kenya, Mauritius, and Nigeria.*
*No resident U.S. branches as of Jan. 1, 1975.

Source: Federal Reserve Bank of Chicago.

As these figures indicate, foreign branch activity is dominated by 20 large banks which have over 82% of the total number of branches and almost 92% of total branch assets. Actually, the bulk of foreign activity is conducted by an even narrower group of banks—the 12 who have had substantial overseas operations since 1966. The range and size of activities of these banks is discussed below. However, the importance of the 20 multinational banks to the U.S. banking system and the importance of their foreign branch operations to these banks should be noted here. These banks have 30% of total domestic assets of all U.S. banks. As Table 4 indicates, they have $139 billion of assets in their foreign branches. Their domestic and foreign branch assets are approximately $400 billion or 37% of the domestic and foreign branch assets of all U.S. banks and the average amount of assets held overseas by these 20 banks is 35% of their total assets. The operations of their foreign branches are an important segment of the U.S. banking system as a whole.

TABLE 4.—ASSETS OF FOREIGN BRANCHES OF U.S. BANKS BY TYPE OF BANK

(Dec. 31, 1974)

Type of bank	Branch Offices		Branch Assets	
	Number	Percent of total	Amount (millions)	Percent of total
80 banks with only "shell" branches[1]	80	10.9	$4,139	2.7
25 "nonnetwork" banks with full service foreign branches	49	6.7	8,627	5.7
20 banks with multinational branch networks	603	82.4	139,139	91.6
Total all banks	732	100.0	151,905	100.0

[1] These branches are located in the Bahamas or the Cayman Islands.

Source: Federal Reserve Board; compiled by committee staff.

THE DEVELOPMENT OF BRANCH OPERATIONS

During the fifty-year period between the establishment of the national banking system in 1863 and the Federal Reserve System in 1913, American banking was largely isolated from developments in international financial markets in London and on the European continent. National banks were prohibited both from establishing offices overseas and from creating acceptances associated with financing foreign trade. As a result, only a limited number of private and state chartered banks were actively engaged in international operations.

In recognition of the fact that the United States had shifted from a debtor to a creditor nation, the Federal Reserve Act provided for the creation of acceptances and authorized the establishment of overseas branches by national banks with capital and surplus of $1 million. As Section 25 makes clear, the intent was to provide facilities "for the furtherance of the foreign commerce of the United States." The results were immediate and dramatic. By 1920, state and national banks together had established 100 direct foreign branches.[1] Due to the economic crisis of 1920–21 and lack of experienced management, branch operations receded from this peak and the number of branches had dropped to 72 in 1926. The few banks which maintained branches during the 1930's and the war years, were able to resume and expand their foreign operations under the favorable conditions which developed during the 1950's. By 1955, 7 U.S. banks had a total of 115 foreign branches with assets of $2 billion.

Between 1955 and 1966, the number of overseas branches more than doubled with a 6-fold increase in their assets. There were, however, only 12 banks with branches in 1966 and of the 244 branches then operating, 210 were branches of 3 banks—First National City Bank, Bank of America and Chase Manhattan Bank. The branches of 9 other large U.S. banks accounted for only 13 percent of the total number. Moreover, 5 of these banks had branches only in London.

The expansion of the branch networks of the 3 largest banks demonstrated that international operations afforded a remarkable opportunity for growth and that larger banks were in a better position to

[1] In 1913 there were only 6 direct foreign branches of 4 U.S. banks.

take advantage of this opportunity. Unhampered by geographical restrictions which acted to moderate the size of banks operating within the United States, they were able to create a world-wide network of branches and to demonstrate that the potential for growth for banks with overseas branches was much greater than for banks without such facilities. But restrictions on their domestic growth and domination of U.S. credit markets were also loosened as the larger U.S. banks became more active overseas. Banks with London branches responded to tight money conditions in the United States in 1966 by importing funds from their branches to maintain their volume of domestic loans. This was an obvious competitive advantage and a role for the foreign branches which was not consistent with their statutory obligation to further U.S. trade.

The extent to which the branches functioned to supply funds to their home offices in the 1960's is indicated in Table 2. Branch claims on their home offices rose to one-third of their total assets in 1966. From 1965 through 1968 the foreign branches continued to supply about one-fourth of their funds to their parent banks' U.S. offices. Recognition of the advantages of development of this source of funds resulted in a significant increase in the number of banks with foreign branches in 1968. The following year—again in a period of monetary stringency—the number of banks with branches jumped from 26 to 53 and the foreign branches again provided one-third of their funds to their U.S. parent banks.

The percentage of total branch assets held in London increased to 60 percent in 1969 as compared with 52 percent in 1966, and Nassau had gained a 7 percent share of total assets over the 3 year period. This largely reflects the choice of location of the newcomer banks. Aside from the fact that it is the center of the Eurocurrency market, the attractiveness of London was enhanced by the fact that banks dealing in non-sterling deposits were not subject to reserve requirements or interest rate limitations. Nassau bad similar advantages as well as favorable tax laws, and the bulk of new banks forming branches in 1969 did so in Nassau.

The inflow of funds to U.S. banks from their foreign branches in 1969 was $13 billion. The number of banks able to evade the effects of domestic monetary stringency, the larger volume of funds for the purpose, the dislocation of credit markets as funds were funneled to larger corporate borrowers and the resulting distortion of the economic effects of monetary policy were cause for alarm. In response, the Federal Reserve Board imposed a reserve requirement on excess borrowings by the home office from overseas branches. The reserve requirement made excess borrowings less profitable and substantial repayments were made both in 1970 and 1971.

When their role as source of funds for the parent banks ended, the foreign branches solicited new customers for their funds. Their orientation became more international after 1970. There was an increase in the volume of loans and liabilities to foreigners and in the proportion payable in currencies other than the dollar. The volume of branch activity related to currency speculation also increased as discussed below.[2]

[2] See "Some Effects of the Foreign Lending Activities of U.S. Banks."

ACTIVITIES OF U.S. BANK BRANCHES IN EUROCURRENCY MARKETS

International financial markets are by no means a new phenomenon, but the volume of external currencies used and the ways in which institutions operate in these markets are new phenomena. Bank of England and BIS statistics indicate that Eurocurrency assets are estimated at $300 billion with the dollar component $255 billion. Assets of U.S. bank branches payable in dollars were $132.2 billion at year-end 1975 and those payable in other currencies were $43.7 billion. The steady demand for dollars throughout the 1960's made it the key currency in the market for foreign currency deposits. Following the 1973 devaluation and the inauguration of floating exchange rates, the demand for Eurodollar assets fell. The result was a so-called dollar "overhang" which disappeared the following year with the increase in the price of oil and the insistence of OPEC countries that they be paid in dollars. Since then, the demand for Eurodollar assets rises and falls in response to changes in interest and exchange rates.

The way in which Eurodollar credits are extended is described in one of the earlier but still applicable discussions of Eurodollar lending activities.

> The Euro-dollar market is largely a wholesale market characterized by a high proportion of interbank activity. A typical Euro-dollar transaction involves a round amount ranging from $1 million to $5 million placed for a standard maturity running from call to one year, although maturities of up to 5 years can be negotiated. Since 1966, Euro-dollar CD's have also been available. Because these transactions usually involve prime customers, Euro-dollar interbank loans are made in a matter of minutes or hours with practically no questions asked—even on loans of over 6 months. The actual transfers are made by telephone or teletype with a letter of confirmation as the only customary documentation.[3]

Like all banks, Eurocurrency banks hold reserves. But, for the most part, they are exempt from mandatory reserves and this is very advantageous both in terms of profitability and flexibility.

Reserve requirements are not imposed on liabilities of branches in the United Kingdom, Luxembourg, Panama, the Bahamas, Cayman Islands and Singapore. Branches in these locations hold $124.3 billion of liabilities or 75% of total foreign branch liabilities. But in other countries as well, reserve requirements are not imposed on liabilities derived from other banks (domestic or international) or liabilities denominated in external currencies. The amount of domestic nonbank deposits which the branches attract is insignificant as a percentage of their total liabilities. Thus, the assertion by the Federal Reserve Board Governor Robert C. Holland that Eurocurrency operations constitute "an unregulated and reserve-free market in bank services"[4] is quite accurate, and the result is a reduction in control by monetary authorities over the level of Eurocurrency activity.

Competition with domestic sources of credit and with other institutions in the Eurodollar market resulted in an unusually low margin of profit for foreign branches. However, the size of the credits and the fact that until recently they were virtually risk free lowered costs in relation to the banks' overall business. Furthermore, fees on other business generated by branch activities—including letters of credit, loan commitments, foreign exchange transactions and loan syndication

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[3] Jane Sneddon Little, "The Eurodollar Market: Its Nature and Impact," *New England Economic Review*, Federal Reserve Bank of Boston, May/June, 1969.

[4] Robert C. Holland, "Public Policy, Issues in U.S. Banking Abroad," address to the Bankers' Association for Foreign Trade, April 8, 1975.

management fees—made overseas operations highly profitable. But profitability was not the only justification for Eurocurrency activity. For some banks it reflected a necessary defensive strategy for keeping and expanding domestic business relationships. After 1972, a decline in loan demand by prime borrowers raised some questions regarding the wisdom of continuing—and even shaving further—the low margin of profit, especially since the competitive squeeze led to a relaxation of one of the few safeguards the Eurocurrency banks had maintained—a limitation on the amount loaned to any one customer or any one country.[5]

Very little information is available on the business of nonbank borrowers in Eurocurrency markets. The information is available to bank examiners but, as of year-end 1975, it was not reported on a regular basis as are data on the domestic loans of large banks. This important gap reveals the weakness of the data on international banking for economic analysis. It is difficult to determine from generalized, aggregate information on branch activity whether these offices are engaged in trade financing, financing overseas offices of U.S. based multinational corporations, making development loans to developing nations, etc.

Foreign branches of U.S. banks report the location of branches where loans are made but not the country of origin of the borrower, except in the case of U.S. nationals. Borrowers and depositors are reported under the categories of nonbank, governments and official institutions, the parent bank network and other banks. It is assumed that, before 1972, the bulk of lending to nonbank borrowers was to overseas subsidiaries of U.S. corporations and to other multinational corporations. Fragmentary information from various official and nonofficial sources indicates that, while governments had not been major borrowers before 1972, British local authorities and nationalized industries became important borrowers in that year. Sizable long-term credits to less developed countries were also made and, even at the time, were considered somewhat risky.[6] Borrowing for domestic financing by Japanese and Italian banks—as well as by the U.S. parent banks in 1969—were also significant uses of funds. In 1974 and 1975, a substantial volume of loans was made to developed countries to finance oil imports, together with additional loans to less developed countries for the same purpose.

Among the more important borrowers of foreign branch funds are other Eurocurrency banks, both U.S. and foreign.[7] The importance of the interbank market for these banks is due to the difficulty of obtaining a stable, nonbank deposit base. As a result, some banks choose to act solely as intermediaries, presumably minimizing risk by lending only to other Eurocurrency banks rather than to nonbank borrowers, although, as noted, this is frequently a channel for lending to governments. Before 1974, U.S. branches in London received a substantial volume of interbank deposits without the effort of solicitation. Branches in other countries have had more difficulty in

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[5] Andrew F. Brimmer, "American International Banking," April 2, 1973; *London Banker*, November 1972, p. 1435.

The tightening of exchange controls in 1972 by most industrial countries was undoubtedly responsible for the loss of corporate borrowers.

[6] Brimmer, "American International Banking;" "Uneasy Money," article by Charles N. Stabler, *Wall Street Journal*, May 21, 1973.

[7] The term "Eurocurrency banks" means the foreign branches of U.S. banks, their overseas banking subsidiaries and external branches and subsidiaries of foreign banks.

obtaining funds from other banks and have depended on the parent's London branch to provide a large share of their resources.

Interbank transactions make possible the sizable credits extended in the Eurodollar market, since a number of banks may be participants either indirectly as depositors or directly as participants in a loan managed by a lead bank, or may participate in both ways. Because of the interbank network, Eurocurrency banks have risked extending the spread between the average maturity of loans and of liabilities and have ignored other traditional ways of bolstering liquidity, such as maintaining portfolios of readily marketable securities. Presumably, these liabilities can be purchased as needed and rolled over or replaced with ease. Meanwhile, these banks, whether subsidiaries or branches, have the cushion of the parent bank's domestic resources to fall back on, and the parent bank can call on its national central bank for resources as well.

But these assumptions no longer seem invulnerable to question. Analyses of specific problems and practices are presented in other sections of this paper; but, in general, the major disadvantages in the structure of international banking relate to the fact that long-term credits which require constant replenishing with short-term funds do present problems, even when the rate on the loan varies with the cost. The drop in the interbank market in 1974 demonstrated the vulnerability of banks which engage in such practices and tested the ability of the parent banks to provide support. The crisis of that summer is discussed in detail elsewhere.[8] The crisis was contained but the banking system is perhaps less strong as a result of the experience.

TABLE 5.—PERCENTAGE BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES OF FOREIGN BRANCHES OF U.S. BANKS BY LOCATION AND NATURE OF THE ENTITIES OWING AND OWED

	Dec. 31, 1972		Sept. 30, 1973		Sept. 30, 1974		Sept 30, 1975	
	Assets (on)	Liabilities (to)	Assets (on)	Liabilities (to)	Assets (on)	Liabilities (to)	Assets (on)	Liabilities (to)
Claims on (and to) U.S. entities	4.0	4.2	4.4	4.4	4.2	6.8	3.95	11.36
Parent banks	1.5	1.0	1.7	1.1	2.5	3.4	1.96	6.49
Others	2.5	3.2	2.7	3.3	1.8	3.3	1.99	4.87
Claims on (and to) foreigners	92.1	91.6	91.3	91.0	91.6	88.7	92.23	84.90
Other branches of parent bank	15.8	14.9	15.5	15.4	17.8	17.8	18.97	18.26
Other banks	45.8	53.9	44.6	53.1	41.5	42.4	39.14	42.52
Official Institutions	2.1	8.3	2.0	7.9	2.5	11.8	2.92	11.88
Non-bank foreigners	28.4	14.5	29.2	14.6	29.7	14.3	31.18	12.21
Miscellaneous claims	3.9	4.2	4.3	4.6	4.2	4.6	3.81	3.73
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.00	100.00

Source: Federal Reserve Bulletin.

[8] See "The Role of the Federal Reserve as Lender of Last Resort."
The response of the Comptroller of the Currency to the FINE Questionnaire expresses the view that the international component of the banking system was strengthened by the events of 1974 in that it emerged with better control by senior management over international operations.

TABLE 5a.—SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS

[Millions of dollars]

Sources and uses of funds	All foreign branches, Sept. 30, 1969			All foreign branches, Sept. 30, 1971			All foreign branches, Sept. 30, 1973		
		Percentage distribution			Percentage distribution			Percentage distribution	
	Amount	Sources	Uses	Amount	Sources	Uses	Amount	Sources	Uses
Internal system:									
U.S. parent:									
Source: Liabilities to U.S. parent	704	2.4		501	0.9		1,178	1.1	
Use: Claims on U.S. parent	11,783		39.4	2,969		5.4	1,917		1.8
Net position	11,079			2,468			739		
Branches in other countries:									
Source: Liabilities to branches	2,779	9.3		7,853	14.2		15,150	13.9	
Use: Claims on branches	2,847		9.5	7,930		14.3	15,092		13.8
Net position	68			77			−58		
Inter-bank market:									
Source: Liabilities to foreign banks	16,894	56.5		28,489	51.5		58,734	53.7	
Use: Claims on foreign banks	6,839		22.9	22,305		40.3	49,312		45.1
Net position	−10,055			−6,184			−9,422		
Foreign official institutions:									
Source: Liabilities to foreign official institutions	1,781	6.0		5,476	9.9		8,769	8.0	
Use: Claims on foreign official institutions	445		1.5	1,164		2.1	2,242		2.1
Net position	−1,336			−4,312			−6,527		
External market:									
Source: Liabilities to private foreign depositors	4,894	16.4		8,440	15.3		16,221	14.8	
Use: Claims on private foreign borrowers	5,438		18.2	15,736		28.5	32,274		29.5
Net position	544			7,296			16,053		
Residual market:									
Source: all other liabilities	2,871	9.5		4,782	8.2		9,278	8.5	
Use: all other claims	2,456		8.2	5,030		9.1	7,733		7.1
Net position	−393			248			−1,545		
Total resources	29,923	100.0	100.0	55,541	100.0	100.0	109,330	100.0	100.0

TABLE 5b.—SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS, DECEMBER 1973 TO JUNE 1975

[Dollars of millions]

Sources and uses of funds	Dec. 31, 1973			June 30, 1974			Dec. 31, 1974			June 30, 1975		
		Percentage distribution			Percentage distribution			Percentage distribution			Percentage distribution	
	Amount	Sources	Uses	Amount	Sources	Uses	Amount	Sources	Uses	Amount	Sources	Uses
Internal bank system:												
U.S. parent:												
Sources: Liabilities to U.S. parent	$1,642	1.3		$3,009	2.0		$5,809	3.8		$12,197	7.5	
Uses: Claims on U.S. parent	1,886		1.5	4,093		2.8	4,464		2.9	2,341		1.4
Net position	244			1,084			−1,345			−9,856		
Other branches of U.S. parent:												
Sources: Liabilities to branches	18,213	14.9		24,234	16.4		26,941	17.7		30,347	18.7	
Uses: Claims on branches	19,177		15.7	25,020		17.0	27,559		18.1	30,830		19.0
Net position	964			786			618			483		
U.S. domestic market:												
Sources: Liabilities to U.S. depositors	3,968	3.3		5,540	3.8		6,173	4.1		6,414	4.0	
Uses: Claim on U.S. borrowers	3,205		2.6	2,682		1.8	2,434		1.6	3,196		2.0
Net position	−763			−2,858			−3,739			−3,218		
Foreign inter-bank market:												
Sources: Liabilities to foreign banks	65,389	53.7		71,956	48.8		65,675	43.2		64,933	40.0	
Uses: Claims on foreign banks	56,368		46.3	64,434		43.7	60.283		39.7	63,709		39.3
Net position	−9,021			−7,522			−5,392			−1,224		
Foreign official institutions:												
Sources: Liabilities to foreign official institutions	10.330	8.5		13.681	9.3		20.185	13.3		21,104	13.0	
Uses: Claims on foreign official institutions	2,693		2.2	3,610		2.4	4,077		2.7	4,824		3.0
Net position	−7,637			−10,071			−16,108			−16,280		
Foreign private market:												
Sources: Liabilities to private foreign depositors	17,683	14.5		22,456	15.2		20,189	13.3		20,713	12.8	
Uses: Claims on private foreign borrowers	33,736		27.7	41.889		28.4	46,795		30.8	51,021		31.5
Net position	16,053			19,433			26,606			30,308		
Residual market:												
Sources: All other liabilities	4,641	3.8		6,589	4.5		6,933	4.6		6,499	4.0	
Uses: All other claims	4,801		4.0	5,737		3.9	6,293		4.2	6,286		3.8
Net position	160			−852			−640			−213		
Total resources	121,866	100.0	100.0	147,465	100.0	100.0	151,905	100.0	100.0	162,207	100.0	100.0

Source: Federal Reserve Bulletin, January 1975, pp. A-72-73, and October 1975, pp. A-70-71.

SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS

The data in Tables 5, 5a and 5b outline information available on borrowers and depositors in foreign branches of U.S. banks and document the shifts in the relative importance of various sources and uses of funds over the period from September, 1969 to September, 1975. Two major shifts have occurred during this period: the home office was a major borrower of funds from the branches in September, 1969 but became an important supplier of funds in June, 1975; the relatively balanced position between nonbank credits and deposits which had been maintained by the branches through 1969 shifted substantially in favor of credits in the period thereafter to a peak in September, 1975 with foreign nonbank credits 2½ times deposits in the same category.

The role of capital controls in developing Eurocurrency markets is discussed elsewhere. While the Voluntary Foreign Credit Restraint Program was administered by the Federal Reserve Board—between February, 1965 and January, 1974—offshore lending through the foreign branches increased substantially as did the branches' reliance on overseas funds. Ending the Voluntary Foreign Credit Restraint Program at the beginning of 1974 might have been expected to increase the outflow of funds to finance branch operations, but this did not occur in the first half of 1974 because domestic loan demand was high and interest rates in domestic markets were rising for the year as a whole. There was a sharp (85%) increase in short term claims on foreigners by U.S. banks which occurred after mid-year but the increase in long-term claims (19%) was only slightly more than in 1973. During the first six months of 1975, U.S. banks' loans to foreigners declined, as did short-term liabilities to foreigners, indicative of the overall decline in international activity.[9]

The fact that the VFCR Program had been ended did make it possible for banks to respond to the crisis in the Eurocurrency market precipitated by the failures of Franklin National Bank and Herstatt in the summer of 1974 by providing liquidity to branches. Between May and September 1974, the liabilities of foreign branches' of U.S. banks shrank by $3.4 billion, a decline equal to 3.1% of their total deposits as of May. Most of the decline occurred in the branches' liabilities to other banks. There the drop amounted to $8.3 billion or 11.2% of outstanding liabilities. Some of the decline was offset by the increase in OPEC deposits but the remainder of the funds used to offset this sharp decline were supplied by the parent banks in the United States.[10]

Although the atmosphere of crisis receded by the end of 1974, Eurocurrency interbank activity did not rise again to previous levels. The foreign interbank market had provided 48.8 percent of total liabilities in June, 1974 but provided only 40.0 percent of the total

[9] European banks are the major depositors in U.S. banks and have been major borrowers as well. It has been observed that their deposits are the reserves which non-U.S. Eurodollar banks maintain against their dollar deposits and that they are held in the United States for purposes of clearing and liquidity.

Other major developments in foreign lending by banks in the U.S. since the end of the VRCR Program are a substantial decline in short-term claims to Japan between December, 1973 and June, 1975, as well as a decline in short-term claims on foreign banks. The decline in loans to Japan was offset by a substantial increase in bankers' acceptances issued to finance Japan's trade with other countries but sold in the United States. An increase in claims on Latin America reflects loans by U.S. banks to their Caribbean shell branches.

[10] See also Andrew F. Brimmer and Frederick R. Dahl, "Growth of American International Banking, Implications for Public Policy," address before the Joint Session of the American Economic Association and the American Finance Association, December 28, 1974.

in June 1975, an actual decline of $7 billion. The share of liabilities provided by foreign non-bank depositors also shrank significantly during this period but was more than offset by the increase in deposits of official institutions, most of which were OPEC funds. Altogether, there was a drop in the proportion of branch funds supplied by foreign sources. Foreign sources (other than banks' own intrabranch networks) accounted for 73.3% of total liabilities in June 1974 but for only 65.8% a year later. The difference was made up by a rise in borrowings by the foreign branches from the home office and other U.S. sources which accounted for 11.4% of total liabilities in September 1975.

A glance at the bottom line on Table 10c reveals that the assets of the Caribbean branches rose $7.9 billion from December, 1974 to June, 1975—76.9% of the increase in assets for all branches—while assets of the London branches grew by only $947 million over the same period. This supports the thesis that parent bank funding was responsible for the growth in foreign branch credits during this period since most of the growth in assets took place in the Caribbean branches and most of the increase in parent funding occurred there as well. The aggregate amounts involved indicate that this activity largely involves the 20 multinational banks rather than the smaller banks which have only "shell" branches in the Caribbean.[11]

Turning to the London branches, (Table 8b), the data reveal that they also increased their liabilities to the parent banks in the period from December, 1974 to June, 1975 and that the amount ($941 million) is almost the same as the amount of increase in total assets/liabilities for this period ($947 million). Foreign interbank deposits in the London branches dropped $4.8 billion between June and December 1974 and fell another $2 billion between year-end 1974 and June, 1975. There was a $4.1 billion increase in deposits of foreign official institutions (OPEC) in the last six months of 1974 but no increase during the first half of 1975. The London branches also increased their borrowings from other branches in the parent network by $2.3 billion and reduced the amount of funds supplied to the intrabank network by $1 billion. Clearly, the London branches remained in a somewhat deflated condition through June, 1975.

The shifts in sources and uses of funds in 1974–75 reflect the overall impact that OPEC funds have had on the Eurocurrency market. As foreign governments required additional dollars to finance oil imports, dollar assets were shifted out of the Eurocurrency market and used for that purpose. Since the Eurocurrency interbank market was the repository for most of these assets, it necessarily shrank as foreign banks with external activities loaned their dollar funds to their own governments and domestic customers, and returned less to the interbank pool.

As the data indicates, the OPEC funds were not recycled back into the Eurocurrency market, as some had feared, without substantial leakage. A major portion of the dollars withdrawn from the Eurodollar market have been invested by OPEC countries in national

[11] The 80 banks with only "shell" branches in the Caribbean have $4.1 million of assets, 13% of total branch assets in the Bahamas and Cayman Islands ($31.7 billion). The other 25 banks described in Table 3 above have $8.6 billion total assets, the bulk of it in full service branches outside the Caribbean. Since these two groups of banks together have only 25–30% of total assets in the Caribbean branches, the $8 billion derived from parent banks would probably exceed their total liabilities. Thus, a substantial share of these funds are provided by the 20 large multinational banks to their Caribbean branches and, as is obvious, an even larger share of the $5.8 billion supplied to other branches of the parent banks by the Caribbean branches represent claims on branches of the 20 multinational banks.

markets. Breakdowns of the amounts invested in the United States by OPEC and other countries are published monthly in the *Federal Reserve Bulletin* and weekly Federal Reserve data documents the rise in foreign official holdings of U.S. Government obligations. The decisions of OPEC countries to invest in Treasury bills as opposed to Eurodollar deposits may reflect concern for the safety of assets as well as political factors. It does not reflect decisions based on purely economic factors such as interest rate differentials.

In any event, the amount of funds deposited by OPEC countries in the Eurocurrency market was not sufficient to support the lending activities of Eurocurrency banks. In the case of U.S. banks, the additional growth in foreign branch assets which took place during the first nine months of 1975 was funded by the parent banks. Factors which prompted U.S. banks to maintain a $11 billion level of lending to their branches in the last half of 1975 are discussed in a subsequent section.[12]

GEOGRAPHIC DISTRIBUTION OF FOREIGN BRANCHES

As Table 3 indicates, there are more branches in Latin America (363) than in any other overseas area. Europe and the Caribbean have almost equal numbers—167 and 166 respectively. The Far East and Middle East together have 138 branches but the majority are located in the Far East. Very few branches have been established in Africa. A somewhat different profile of the relative importance of various geographic areas is stated in Table 6. The breakdown of branch assets reveals that the 55 branches in London had 46.4% of the total at year-end 1974 while the 363 branches in Latin America had only 4.3% of total assets.

TABLE 6.—TOTAL ASSETS/LIABILITIES OF OVERSEAS BRANCHES OF FEDERAL RESERVE MEMBER BANKS BY GEOGRAPHIC AREA AND BY YEAR AS A PERCENTAGE OF TOTAL ASSETS/LIABILITIES FOR EACH YEAR

Geographic area	1966	1969	1970	1971	1972	1973	1974
United Kingdom and Ireland	52.06	60.20	56.39	52.41	53.84	49.55	46.42
Continental Europe	16.32	15.72	18.05	19.26	16.83	16.85	17.35
Bahamas	(1)	7.28	8.40	11.71	14.95	17.58	16.42
Latin America	8.49	3.85	3.91	3.76	3.36	4.13	4.26
Far East	14.60	7.92	8.41	9.28	9.19	9.40	12.83
Near East and Africa	2.17	.64	.60	.56	.50	.53	.84
U.S. overseas areas and trust territories	6.36	4.39	4.24	3.02	2.33	1.97	1.88
Total	100	100	100	100	100	100	100

1 Included in data for Latin America in 1966.

Note: Data are for end of year.

Source: Federal Reserve Board, compiled by the committee staff.

The London branches have held the largest portion of foreign branch assets throughout the previous decade. Their share was 52% in 1966 and rose to 60% in 1969; the year in which they functioned primarily to gather Eurodollars for the parent banks to use in their domestic operations. Since that time, however, there has been a steady decline in the proportion of total assets held in the London branches while the share held by the Latin American branches increased slightly in 1973 and 1974. The data on branch assets held in U.S.

12 See "Some Effects of the Foreign Lending Activities of U.S. Banks."

overseas and trust territories offer a basis for comparison of developments during this period. The fact that this was once a significant component of banks' foreign activities is indicative of the evolving sophistication of international markets. But, despite the enormous increase in the Eurodollar activities of U.S. banks, Latin American branches have continued to be an important part of overseas activity. Not only has the number of branches grown, but their share of total assets has kept pace with the overall growth of branches.

Table 7 provides a more detailed breakdown of branch activity by country and indicates more clearly the degree to which the assets of branches are concentrated in developed countries. It also reveals that the bulk of branch assets are held in international financial centers rather than national money markets. Branches of U.S. banks do relatively little domestic business in London, Luxembourg, Panama and Singapore and none in Nassau and the Cayman Islands. Nevertheless, aggregate assets of branches in these locations was $124.3 billion in August 1975, or 75% of the total assets of all branches.

TABLE 7.—ASSETS OF FOREIGN BRANCHES OF U.S. BANKS LOCATED IN SELECTED COUNTRIES[1]

[In millions of dollars]

Country	December 1973		December 1974		August 1975	
	Total assets	Adjusted assets[2]	Total assets	Adjusted assets	Total assets	Adjusted assets
Belgium	2,628.6	2,166.5	4,130.7	2,793.7	4,388.6	3,335.8
France	6,883.5	5,462.6	8,042.0	6,092.4	8,415.9	6,424.7
Germany	6,267.5	4,263.4	8,198.3	5,605.5	7,246.2	5,287.5
Italy	2,187.7	1,479.6	2,270.9	1,699.4	2,143.9	1,443.3
Luxembourg	2,133.3	1,677.9	1,755.9	1,247.8	1,424.4	1,087.1
Switzerland	1,159.1	837.8	1,035.8	927.1	1,119.2	1,045.5
United Kingdom	61,732.1	52,958.6	69,804.2	57,079.8	72,455.0	57,241.7
Panama	1,527.1	1,410.5	2,691.3	2,576.5	3,087.7	2,999.5
Bahamas	20,683.5	18,921.6	27,313.3	23,964.5	35,677.8	30,591.1
Cayman Islands	3,087.9	2,922.3	4,419.6	4,290.7	5,595.3	5,459.9
Japan	6,217.3	5,537.0	10,265.9	9,548.9	10,340.7	9,434.6
Singapore	3,147.8	2,043.3	5,494.7	3,317.9	6,081.9	3,706.1
Taiwan	(3)	(3)	(3)	(3)	385.9	382.7
Total selected countries	117,655.4	99,681.1	145,422.6	119,114.2	158,362.5	128,439.5
Total all countries	121,866.4	102,698.4	151,905.3	124,346.4	165,483.7	134,205.5
Selected countries as percent of total	96.5	97.1	95.7	95.8	95.7	95.7

[1] Countries in which at least 4 U.S. banks have branches.
[2] Total assets less claims on other foreign branches of parent bank.
[3] Fewer than 4 U.S. banks maintained branches.

Source: Federal Reserve Board.

Another measure of the amount of branch activity in international markets is provided by a breakdown of the dollar and foreign currency components of branch assets.[13] In 1973 the share of total assets payable in dollars fell to an historic low of 65% but rose again in 1974 to 70% and to 75% in 1975. Further, not all of the 25–35% of assets which have been payable in foreign currencies is indicative of local lending in domestic currencies. Much of it reflects external currency loans and deposits denominated in Eurocurrencies other than Eurodollars.[14]

[13] See Table 1, Chapter 1.
[14] Eurocurrencies—or Xenocurrencies as they are sometimes called—are currencies which are held as deposits and are loaned outside the country of which they are the domestic currency. Many of the large syndicated credits in which U.S. banks are participants are denominated in EuroDeutschemarks, Euro-Swiss Francs, etc.

SHELL BRANCHES

The Board of Governors has encouraged the formation of overseas branches by a wider number of U.S. banks on the grounds that "the public interest of furthering the foreign commerce of the United States is best served by permitting competitive alternatives among U.S. banks abroad, rather than confining branch facilities to the few very large U.S. banks who have long had foreign branches." [15] In line with this policy, the Board has approved the formation of limited service facilities or "shell" branches—first in Nassau, Bahamas and more recently in the Cayman Islands. These "shell" branches have no contact with the local public and their transactions are directed by the parent bank or, in the case of the large multinational banks, by other foreign branches. The "branch" usually consists of no more than a mailing address. Books are kept by contract parties and are usually duplicates of those kept at the home office. As noted, these branches are merely adjuncts of the Eurocurrency market. Their operations are not related to the financing of U.S.-Latin American trade.

The large majority of the 80 banks which had only a Nassau branch in 1975 were smaller, interior banks without resources to support a full service branch overseas. The Board's decision to approve the formation of such branches was based on consideration of "fairness or equity" and the fact that they would serve as "adjuncts to the totality of foreign branch operations overseas in providing financing and financial services to U.S. business interests." As such, it was decided that their operations "would not be contrary to the public interest." [16]

SOURCES AND USES OF BRANCH FUNDS BY GEOGRAPHIC LOCATION

The London branches are the most important segment of the foreign branch network of U.S. banks because they have the largest share of assets and because they supply a substantial portion of funds to other foreign branches. London is the center of the Euro-currency interbank market and the activities of the U.S. banks' branches reflect that fact. They lend a higher percentage of funds to other foreign banks and less to private foreign borrowers than the average for all branches. But as the data in Tables 8a and 8b reveal, they obtain a larger share of private foreign deposits than do other branches. This is indicative of London's position as the preeminent center of international finance and also of the favored position of U.S. banks in that market. Not only have they attracted a substantial portion of funds supplied by private depositors, they also have been the principal depositories of central bank funds and, more recently, of OPEC funds.

[15] Response of Arthur Burns, Chairman, Board of Governors of the Federal Reserve System, to questions submitted by Honorable Wright Patman. *Economic Report* of the President, Hearings before the Joint Economic Committee, February 20, 1973.

[16] *Ibid.*, Federal Reserve Board Governor Andrew F. Brimmer opposed the establishment of shell branches and summarized objections to them as follows:

"While I have looked upon the Nassau shell branches as falling short of the requirements needed to qualify as genuine foreign banking institutions—and the movement to the Caymans simply compounds an already undesirable situation—I have no expectations that the device will disappear. Rather, I would expect these or similar arrangements to be maintained, at least on a minimum-level-of-operations basis, even if the VFCR restraints were to disappear and the demand for Euro-dollars to avoid the pressures generated by domestic monetary restraint falls short of that experienced in earlier years. This expectation rests on the strong incentives provided by income tax havens such as Nassau and the Caymans. In the meantime, beginning about a year ago, the Board has alerted the banks opening shell branches in the Bahamas and the Cayman Islands to the possibility that the conditions under which the Board permits them to do business may be modified. Personally, I hope these will be substantially circumscribed (and preferably cancelled) and hope this is done sooner rather than later. (*American International Banking*, paper presented before the 51st Annual Meeting of the Bankers' Association for Foreign Trade, Boca Raton, Florida, April 2, 1973.)

TABLE 8a.—SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS

[Dollar amounts in millions]

Sources and uses of funds	Branches in the United Kingdom Sept. 30, 1969				Branches in the United Kingdom Sept. 30, 1971				Branches in the United Kingdom Sept. 30, 1973			
	Amount	Percentage distribution		Percent of total	Amount	Percentage distribution		Percent of total	Amount	Percentage distribution		Percent of total
		Sources	Uses			Sources	Uses			Sources	Uses	
Internal system:												
U.S. parent:												
Source: Liabilities to U.S. parent	$80	0.4		11.4	$117	0.4		23.4	$161	0.3		13.7
Use: Claims on U.S. parent	8,829		43.8	74.9	2,143		6.6	72.2	604		1.1	31.5
Net position	8,749			79.0	2,026			82.1	443			59.9
Branches in other countries:												
Source: Liabilities to branches	1,257	6.2		45.2	2,645	8.1		33.7	3,678	6.6		24.3
Use: Claims on branches	1,448		7.2	50.9	4,064		12.5	51.2	7,508		13.5	49.7
Net position	191			280.9	1,419			1,842.9	3,830			−6,603.4
Interbank market:												
Source: Liabilities to foreign banks	12,454	61.8		73.7	18,431	56.6		64.7	32,210	57.8		54.8
Use: Claims on foreign banks	5,048		25.1	73.8	14,683		45.1	65.8	30,967		55.6	62.8
Net position	−7,406			73.7	−3,748			60.6	−1,243			13.2
Foreign official institutions:												
Source: Liabilities to foreign official institutions	1,149	5.7		64.5	4,318	13.3		78.8	6,952	12.5		79.3
Use: Claims on foreign official institutions	188		.9	42.2	512		1.6	44.0	660		1.2	29.4
Net position	−961			71.9	−3,806			88.3	−6,292			96.4
External market:												
Source: Liabilities to private foreign depositors	3,270	16.2		66.8	4,785	14.7		56.7	8,957	16.1		55.2
Use: Claims on private foreign borrowers	2,906		14.4	53.4	8,387		25.7	53.3	13,123		23.6	40.7
Net position	−364			−66.9	3,602			49.4	4,166			26.0
Residual market:												
Source: All other liabilities	1,927	9.6		67.1	2,286	7.0		47.8	3,728	6.7		40.2
Use: All other claims	1,682		8.4	68.5	2,673		8.2	53.1	2,752		4.9	35.6
Net position	−245			62.3	387			156.0	−976			63.2
Total resources	20,137	100.0	100.0	67.3	32,582	100.0	100.0	58.7	55,686	100.0	100.0	50.9

Source: Federal Reserve Board.

TABLE 8b.—SOURCES AND USES OF FUNDS OF UNITED KINGDOM BRANCHES OF U.S. BANKS, DECEMBER 1973 TO JUNE 1975

[Dollar amounts in millions]

Sources and uses of funds	Dec. 31, 1973			June 30, 1974			Dec. 31, 1974			June 30, 1975		
		Percentage distribution			Percentage distribution			Percentage distribution			Percentage distribution	
	Amount	Sources	Uses	Amount	Sources	Uses	Amount	Sources	Uses	Amount	Sources	Uses
Internal bank system:												
U.S. parent:												
Sources: Liabilities to U.S. parent	$136	0.2		$606	0.8		$510	0.7		$1,451	2.1	
Uses: Claims on U.S. parent	738		1.2	2,712		3.8	2,472		3.5	641		0.9
Net position	602			2,106			1,962			−810		
Other branches of U.S. parent:												
Sources: Liabilities to branches	3,944	6.4		4,913	6.9		4,762	6.8		7,030	9.9	
Uses: Claims on branches	8,773		14.2	11,886		16.7	12,724		18.2	13,765		19.5
Net position	4,829			6,973			7,962			6,735		
U.S. domestic market:												
Sources: Liabilities to U.S. depositors	2,295	3.7		3,138	4.4		3,468	5.0		3,217	4.5	
Uses: Claims on U.S. borrowers	1,051		1.7	949		1.3	776		1.1	1,192		1.7
Net position	−1,244			−2,189			−2,692			−2,025		
Foreign interbank market:												
Sources: Liabilities to foreign banks	35,063	56.8		36,838	51.7		32,040	45.9		30,030	42.4	
Uses: Claims on foreign banks	34,442		55.8	36,468		51.1	32,701		46.8	34,634		49.0
Net position	−621			−366			661			4,604		
Foreign official institutions:												
Sources: Liabilities to foreign official institutions	6,056	13.0		11,162	15.7		15,258	21.9		15,524	21.9	
Uses: Claims on foreign official institutions	735		1.2	812		1.1	788		1.1	948		1.3
Net position	−7,321			−10,350			−14,470			−14,576		
Foreign private market:												
Sources: Liabilities to private foreign depositors	10,248	16.6		12,516	17.6		11,349	16.3		11,274	15.9	
Uses: Claims on private foreign borrowers	13,811		22.4	16,352		22.9	17,898		25.6	17,522		24.8
Net position	3,563			3,836			6,549			6,248		
Residual market:												
Sources: All other liabilities	1,990	3.3		2,132	3.0		2,417	3.5		2,225	3.1	
Uses: All other claims	2,182		3.5	2,126		3.0	2,445		3.5	2,049		2.9
Net position	192			−10			28			−176		
Total resources	61,732	100.0	100.0	71,305	100.0	100.0	69,804	100.0	100.0	70,751	100.0	100.0

Source: Federal Reserve Bulletin, January 1975, pp. A-72-73, and October 1975, pp. A-70-71.

The "shell" branches in the Bahamas and Cayman Islands are almost a mirror image of the London branches in some respects. They rely heavily on other branches in the parent network for funds but, until 1975, loaned only a very small amount to other branches. They have been as dependent on the foreign interbank market for funds to finance their remarkable growth as have the London branches, but have suppiled less funds to that market. Instead, the Caribbean branches use a larger share of their funds for loans to the external market than do the London branches.[17] To some extent, this may reflect the fact that it is relatively easy to book loans at the "shell" branches and fund them from London.

It is advantageous to banks to have branches in both London and the Caribbean. As noted, the London branches gather funds for the parent network, the bulk of which are supplied by foreign banks. But banks which receive funds in the London interbank market are also expected to provide their share to others. As table 8b indicates, the London branches of U.S. banks have maintained a relatively balanced position, borrowing and lending almost equal amounts in the interbank market until 1975 when they became net suppliers of dollar funds to other banks.[18]

The return on interbank loans is very low. In fact, a Federal Reserve Board survey of the London branches of 15 U.S. banks in 1972 revealed that they had a 0.12 percent rate of return on assets as compared with 0.79 percent rate of return for all insured banks in the United States.[19] But as noted, the London branches supplied funds to the Caribbean branches before 1975, and the Caribbean branches loaned the funds to the external market at rates above the London Interbank Offered rate (LIBO). Thus the low rate of return in London is offset by the higher rate earned in the Caribbean.

Maintaining both a London and a Caribbean branch is advantageous in another way as well. Foreign banks pay taxes to the British government on income earned in London but pay no taxes to local authorities on profits earned in the Caribbean. Therefore, banks concentrate their necessary but minimally profitable interbank lending in London and their highly profitable lending to the external market in the Caribbean since this reduces the overall amount of foreign taxes paid.

Data on branches located in continental Europe, Latin America and Asia are available only through September, 1973. This information clearly outlines the patterns followed by the branches in these areas in obtaining and using funds but, unfortunately, does not indicate what were their particular fortunes in the crisis of 1974 and the period of declining activity which followed. Branches in continental Europe rely on the interbank market as their primary source of funds and it is probable that they were hit as hard by the sharp drop in interbank funding as were the Caribbean branches.

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[17] The London branches loaned $17.9 billion to private foreign borrowers at year-end 1974 and $17.5 billion on June 30, 1975 while the Caribbean branches loaned $11.6 billion and $13.8 billion on the same dates. These amounts were 25.6% and 24.8% of total assets for the London branches and 36.6% and 34.9% for the Caribbean branches.

[18] As discussed elsewhere, some of these interbank loans are a channel for balance of payment loans to governments, especially after 1974.

[19] A. Brimmer, "American International Banking."

In 1973 the European branches increased their borrowings from foreign banks to almost 58% of total liabilities as funds provided by private foreign depositors declined and loans to the private sector increased (Table 8). In part, this reflected the fact that some governments had imposed exchange controls during the currency crises of June 1972 and March 1973.

TABLE 9.—SOURCES AND USE OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS

[Dollar amounts in millions]

Sources and uses of funds	Branches in the rest of Europe, Sept. 30, 1969				Branches in the rest of Europe, Sept. 30, 1971				Branches in the rest of Europe, Sept. 30, 1973			
	Amount	Percentage distribution: Sources	Percentage distribution: Uses	Percent of total	Amount	Percentage distribution: Sources	Percentage distribution: Uses	Percent of total	Amount	Percentage distribution: Sources	Percentage distribution: Uses	Percent of total
Internal system:												
U.S. parent:												
Source: Liabilities to U.S. parent	$122	2.3		17.3	$92	0.8		18.4	$146	0.7		12.4
Use: Claims on U.S. parent	1,466		27.1	12.4	103		0.9	3.5	153		0.7	8.0
Net position	1,344			12.1	11			.4	7			.9
Branches in other countries:												
Source: Liabilities to branches	1,000	18.5		36.0	2,648	22.2		33.7	4,190	19.6		27.7
Use: Claims on branches	1,003		18.5	35.2	3,067		25.7	38.7	4,814		22.6	31.9
Net position	3			4.4	419			544.2	624			−1,075.9
Interbank market:												
Source: Liabilities to foreign banks	2,946	54.4		17.4	6,338	53.2		22.2	12,307	57.7		21.0
Use: Claims on foreign banks	989		18.3	14.5	4,380		36.8	19.6	8,227		38.6	16.7
Net position	−1,957			19.5	−1,958			31.7	−4,080			43.3
Foreign official institutions:												
Source: Liabilities to foreign official institutions	153	2.8		8.6	575	4.8		10.5	989	4.6		11.3
Use: Claims on foreign official institutions	174		3.2	39.1	193		1.6	16.6	614		2.9	27.4
Net position	21			−1.6	−382			8.9	−375			5.7
External market:												
Source: Liabilities to private foreign depositors	830	15.3		17.0	1,592	13.4		18.9	2,627	12.3		16.2
Use: Claims on private foreign borrowers	1,239		22.9	22.8	2,737		23.0	17.4	5,559		26.1	17.2
Net position	409			75.2	1,145			15.7	2,932			18.3
Residual market:												
Source: All other liabilities	368	6.8		12.8	673	5.6		14.1	1,368	6.4		14.7
Use: All other claims	497		9.2	20.2	1,203		10.1	23.9	1,768		8.3	22.9
Net position	129			−32.8	530			213.7	400			−25.9
Total resources	5,419	100.0	100.0	18.1	11,918	100.0	100.0	21.5	21,627	100.0	100.0	19.8

Source: Federal Reserve Board.

Nevertheless, the interbank market and other branches in the parent network supplied the bulk of the funds of continental branches in 1969 and 1971 as well. The interbank market and the parent branch network are also important outlets for funds. Like the London branches, those on the continent were used to gather Eurodollars for their U.S. parents in 1969. During the period when exchange controls were in effect, the European branches increased their borrowings from the domestic interbank markets in the countries in which they were located since interbank borrowing and lending were exempt. They then used these funds to make additional loans to private corporate borrowers. As this profile of their activities and the small share (12%) of liabilities provided by the external market indicate, U.S. banks' branches have had little success in penetrating domestic markets of European countries. It would be useful to know, however, what portion of their assets and liabilities reflect activity in domestic as opposed to international interbank markets.

In 1969 the data for branches in Latin America included assets of the "shell" branches in Nassau (Table 9a). Total assets for these branches were only \$2 billion but 41% were claims on the parent bank. This indicates that the "shell" branches were dominant even then, borrowing dollars in the Eurodollar Market for the use of their parent banks in the United States. By 1971, the "shells" had \$6 billion of assets while Latin American branches had only \$574 million. Assets of the latter more than doubled by 1973 to \$1.3 billion but assets of the Caribbean branches (\$21 billion) were 3½ times greater and had risen to \$41.3 billion by August, 1975.

TABLE 10a.—SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS

[Dollar amounts in millions]

Sources and uses of funds	Branches in Latin America, Sept. 30, 1969				Branches in Nassau and the Cayman Islands, Sept. 30, 1971				Branches in the rest of Latin America, Sept. 30, 1971			
	Amount	Percentage distribution: Sources	Percentage distribution: Uses	Percent of total	Amount	Percentage distribution: Sources	Percentage distribution: Uses	Percent of total	Amount	Percentage distribution: Sources	Percentage distribution: Uses	Percent of total
Internal system:												
U.S. parent:												
Source: Liabilities to U.S. parent	$97	4.6		13.8	$26	0.4		5.2	$12	2.1		2.4
Use: Claims on U.S. parent	880		41.4	7.5	219		3.5	7.4	4		0.7	.1
Net position	783			7.1	193			7.8	−8			−.3
Branches in other countries:												
Source: Liabilities to branches	80	3.8		2.9	914	14.8		11.6	177	30.8		2.3
Use: Claims on branches	196		9.2	6.9	388		6.3	4.9	22		3.8	.3
Net position	116			170.6	−526			−683.1	−155			−201.3
Interbank market:												
Source: Liabilities to foreign banks	1,359	64.0		8.0	3,257	52.6		11.4	4	.7		(1)
Use: Claims on foreign banks	404		19.0	5.9	2,210		35.7	9.9	9		1.6	(1)
Net position	−955			9.5	−1,047			16.9	5			(1)
Foreign official institutions:												
Source: Liabilities to foreign official institutions	44	2.1		2.5	123	2.0		2.2	0	0		0
Use: Claims on foreign official institutions	29		1.4	6.5	319		5.2	27.4	8		1.4	.7
Net position	−15			1.1	196			−4.5	8			−.2
External market:												
Source: Liabilities to private foreign depositors	376	17.7		7.7	1,048	16.9		12.4	90	15.7		1.1
Use: Claims on private foreign borrowers	451		21.2	8.3	2,105		34.0	13.4	503		87.6	3.2
Net position	75			13.8	1,057			14.5	413			5.7
Residual market:												
Source: All other liabilities	[2] 169	8.0		5.9	825	13.3		17.3	[2] 291	50.7		6.1
Use: All other claims	156		7.3	6.4	950		15.3	18.9	18		3.1	.4
Net position	−13			3.3	125			50.4	−273			−110.1
Total resources	[2] 2,125	100.0	100.0	7.1	6,193	100.0	100.0	11.2	[2] 574	100.0	100.0	1.0

[1] Indicates amount less than $50,000 or less than 0.05 percent.
[2] Includes the net source of funds in Panama derived from other foreign branches of U.S. parent banks.

Source: Federal Reserve Board.

TABLE 10b.—SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS, SEPT. 30, 1973

[Dollar amounts in millions]

Sources and uses of funds	Branches in Nassau and the Cayman Islands				Branches in the rest of Latin America			
	Amount	Percentage distribution		Percent of total	Amount	Percentage distribution		Percent of total
		Sources	Uses			Sources	Uses	
Internal system:								
U.S. parent:								
Source: Liabilities to U.S. parent	$358	1.7		30.4	$8	0.6		0.7
Use: Claims on U.S. parent	490		2.3	25.6	10		0.8	.5
Net position	132			17.9	2			.3
Branches in other countries:								
Source: Liabilities to branches	4,627	22.0		30.5	107	8.3		.7
Use: Claims on branches	1,739		8.3	11.5	71		5.5	.5
Net position	−2,888			4,979.3	−36			62.1
Interbank market:								
Source: Liabilities to foreign banks	11,682	55.5		19.9	418	32.5		.7
Use: Claims on foreign banks	8,313		39.5	16.9	49		3.8	.1
Net position	−3,369			35.8	−369			3.9
Foreign official institutions:								
Source: Liabilities to foreign official institutions	353	1.7		4.0	(1)	(1)		(1)
Use: Claims on foreign official institutions	696		3.3	31.0	12		.9	.5
Net position	343			−5.3	12			.2
External market:								
Source: Liabilities to private foreign depositors	2,181	10.4		13.4	165	12.8		1.0
Use: Claims on private foreign borrowers	7,509		35.7	23.3	1,076		83.7	3.3
Net position	5,328			33.2	911			5.7
Residual market:								
Source: All other liabilities	1,858	8.8		20.0	[2] 589	45.8		6.3
Use: All other claims	2,301		10.9	29.8	51		4.0	.7
Net position	443			−28.7	−538			34.8
Total resources	21,059	100.0	100.0	19.3	[2] 1,286	100.0	100.0	1.2

[1] Indicates amount less than $50,000 or less than 0.05 percent.

[2] Includes the net source of funds in Panama derived from other foreign branches of U.S. parent banks.

Source: Federal Reserve Board.

TABLE 10c.—SOURCES AND USES OF FUNDS OF BAHAMAS AND CAYMAN ISLANDS BRANCHES OF U.S. BANKS, DECEMBER 1973–JUNE 1975

[Dollar amounts in millions]

Sources and uses of funds	Dec. 31, 1973 Amount	Dec. 31, 1973 Percentage distribution Sources	Dec. 31, 1973 Percentage distribution Uses	June 30, 1974 Amount	June 30, 1974 Percentage distribution Sources	June 30, 1974 Percentage distribution Uses	Dec. 31, 1974 Amount	Dec. 31, 1974 Percentage distribution Sources	Dec. 31, 1974 Percentage distribution Uses	June 30, 1975 Amount	June 30, 1975 Percentage distribution Sources	June 30, 1975 Percentage distribution Uses
Internal bank system:												
U.S. parent:												
Sources: Liabilities to U.S. parent	$307	1.3		$911	2.9		$2,636	8.3		$8,322	21.0	
Uses: Claims on U.S. parent	317		1.3	981		3.1	1,081		3.4	987		2.5
Net position	10			70			−1,555			+7,335		
Other branches of U.S. parent:												
Sources: Liabilities to branches	5,508	23.2		7,642	24.5		7,702	24.3		8,075	20.4	
Uses: Claims on branches	1,928		8.1	3,274		10.5	3,478		11.0	5,831		14.7
Net position	−3,580			−4,368			−4,224			−2,244		
U.S. domestic market:												
Sources: Liabilities to U.S. depositors	1,266	5.3		1,944	6.2		2,180	6.9		2,544	6.4	
Uses: Claims on U.S. borrowers	1,893		8.0	1,446		4.6	1,382		4.4	1,645		4.1
Net position	627			−498			−798			−899		
Foreign interbank market:												
Sources: Liabilities to foreign banks	14,071	59.2		16,496	52.8		14,050	44.3		14,482	36.5	
Uses: Claims on foreign banks	9,895		41.6	12,702		40.7	11,354		35.8	13,747		34.7
Net position	−4,176			−3,794			−2,696			−735		
Foreign official institutions:												
Sources: Liabilities to foreign official institutions	492	2.1		1,096	3.5		2,377	7.5		3,036	7.7	
Uses: Claims on foreign official institutions	1,151		4.8	1,668		5.3	2,022		6.4	2,772		7.0
Net position	659			572			−355			−264		
Foreign private market:												
Sources: Liabilities to private foreign depositors	1,676	7.1		2,490	8.0		2,011	6.3		2,393	6.0	
Uses: Claims on private foreign borrowers	8,068		33.9	10,361		33.2	11,601		36.6	13,832		34.9
Net position	6,392			7,871			9,590			11,439		
Residual market:												
Sources: All other liabilities	451	1.9		639	2.0		778	2.5		793	2.0	
Uses: All other claims	520		2.2	787		2.5	815		2.6	831		2.1
Net position	69			148			37			38		
Total resources	23,771	100.0	100.0	31,219	100.0	100.0	31,733	100.0	100.0	39,645	100.0	100.0

Source: "Federal Reserve Bulletin," January 1975, pp. A-72-73, and October 1975, pp. A-70-71.

The salient characteristic of the Latin American branches is the extraordinarily high proportion of loans to private foreign borrowers—87.6% in 1971 and 83.7% in 1973. This amount of lending involvement with the private market is not matched, however, on the liability side. Private foreign depositors are not important sources of funds. The most important source in both 1971 and 1973 was the intrabranch network of the parent banks which provided funds both directly and indirectly to the Latin American branches, the major portion being supplied indirectly; through branches in Panama. Latin American branches derived less than 1% of their liabilities from the international interbank market in 1971 but by 1973, 32.5% of their liabilities came from that source. Most of this represents borrowings by the Panama branches and reflects the growth of Panama as an international financial center over this period. A very small share of Latin American branch assets are claims on foreign banks or the parent branch network. As noted, private foreigners receive the bulk of the loans, a little over $1 billion in 1973. Who these borrowers are and in which countries they operate is not known.

TABLE 11a.—SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS

[Dollar amounts in millions]

Sources and uses of funds	Branches in Asia, September 30, 1969				Branches in Hong Kong and Singapore, September 30, 1971				Branches in the rest of Asia, September 30, 1971			
	Amount	Percentage distribution		Percent of total	Amount	Percentage distribution		Percent of total	Amount	Percentage distribution		Percent of total
		Sources	Uses			Sources	Uses			Sources	Uses	
Internal system:												
U.S. parent bank:												
Source: Liabilities to U.S. parent	$404	18.0		57.4	$12	1.7		2.4	$243	6.8		48.5
Use: Claims on U.S. parent	608		27.1	5.2	11		1.6	.4	488		13.6	16.4
Net position	204			1.8	−1			(*)	245			9.9
Branches in other countries:												
Source: Liabilities to branches	442	19.7		15.9	279	40.2		3.6	1,190	33.2		15.2
Use: Claims on branches	200		8.9	7.0	262		37.8	3.3	127		3.5	1.6
Net position	−242			−355.9	−17			−22.1	−1,063			−1,380.5
Interbank market:												
Source: Liabilities to foreign banks	136	6.1		.8	172	24.8		.6	287	8.0		1.0
Use: Claims on foreign banks	398		17.8	5.8	45		6.5	2.0	978		27.3	4.4
Net position	262			−2.6	−127			2.1	691			−11.2
Foreign official institutions:												
Source: Liabilities to foreign official institutions	434	19.4		24.4	3	.4			457	12.8		8.3
Use: Claims on foreign official institutions	54		2.4	12.1	12		1.7	1.0	120		3.4	10.3
Net position	−381			28.5	9			−.2	−337			7.8
External market:												
Source: Liabilities to private foreign depositors	418	18.6		8.5	181	26.1		2.1	745	20.8		8.8
Use: Claims on private foreign borrowers	842		37.6	15.5	300		43.2	1.9	1,703		47.5	10.8
Net position	424			77.9	119			1.6	958			13.1
Residual market:												
Source: All other liabilities	407	18.2		14.2	47	6.8		1.0	660	18.4		13.8
Use: All other claims	120		5.4	4.9	85		12.2	1.7	101		2.8	2.0
Net position	−287			73.0	38			15.3	−559			−225.4
Total resources	2,242	100.0	100.0	7.5	694	100.0	100.0	1.2	3,582	100.0	100.0	6.4

Source: Federal Reserve Board.

TABLE 11b.—SOURCES AND USES OF FUNDS OF FOREIGN BRANCHES OF U.S. BANKS, SEPT. 30, 1973

[Dollar amounts in millions]

Sources and uses of funds	Branches in Hong Kong and Singapore Sept. 30, 1973				Branches in the rest of Asia Sept. 30, 1973			
	Amount	Percentage distribution		Percent of total	Amount	Percentage distribution		Percent of total
		Sources	Uses			Sources	Uses	
Internal system:								
U.S. parent:								
Source: Liabilities to U.S. parent	$45	1.6		3.8	$461	6.7		39.1
Use: Claims on U.S. parent	28		1.0	1.5	632		9.1	33.0
Net position	−17			−2.3	171			23.1
Branches in other countries:								
Source: Liabilities to branches	727	26.4		4.8	1,821	26.3		12.0
Use: Claims on foreign banks	721		26.2	4.8	238		3.4	1.6
Net position	−6			10.3	−1,583			2,729.3
Interbank market:								
Source: Liabilities to foreign banks	1,189	43.1		2.0	928	13.4		1.6
Use: Claim on foreign banks	580	21.0	21.0	1.2	1,176		17.0	2.4
Net position	−609			6.5	248			−2.6
Foreign official institutions:								
Source: Liabilities to foreign official institutions	60	2.3		.1	415	6.0		4.7
Use: Claims on foreign official institutions	36		1.3	1.6	224		3.2	10.0
Net position	−24			.4	−191			2.9
External market:								
Source: Liabilities to private foreign depositors	532	19.3		3.3	1,758	25.4		10.8
Use: Claims on private foreign borrowers	1,200		43.5	3.7	3,807		55.1	11.8
Net position	668			4.2	2,049			12.8
Residual market:								
Source: All other liabilities	203	7.4		2.2	1,531	22.1		16.5
Use: All other claims	215		7.8	2.8	647		9.4	8.4
Net position	12			−.8	−884			57.2
Total resources	2,756	100.0	100.0	2.5	6,914	100.0	100.0	6.3

Like Latin America and the Caribbean, Asia also has developing international financial centers in Hong Kong and Singapore. In 1971, U.S. bank branches in these 2 centers had $694 million in assets. By 1973, their assets had risen to $2.7 billion and in August, 1975 the Singapore branches had over $6 billion in assets. As Table 10a indicates, branches in Hong Kong and Singapore relied heavily on the internal systems of their parent banks in starting up operations in the emerging Asian currency market in 1971. The private market and the nonrelated interbank market together provided only about half their funds. They loaned a substantial portion of their funds to the private market, but almost none were loaned to other banks. By 1973, these branches had shifted to the nonrelated interbank market as a primary source of funds and were providing substantially more funds to foreign banks as well. Their principal borrowers however, continued to be private foreigners but there was a notable decline in the proportion of funds provided by private depositors (Table 10b).

There has been a subtantial increase in the assets of branches in the rest of Asia between 1969 and 1975. Between 1971 and 1973, Asian branches other than those in Hong Kong and Singapore increased their assets from $3.6 billion to $6.9 billion. In August 1975, assets of branches in Japan—the most important as measured by the share of funds of all branches in the Far East—were $10.3 billion. For the most part, branches in other parts of Asia are located in less developed—or at least, less industrial—countries. Unfortunately, there are no data on sources and uses of funds by branches in Japan, but since the bulk of branch funds in Asia other than those in Hong Kong and Singapore are in Japan, it is probable that the aggregate data largely reflects the ways branches in Japan obtain and use funds.

As the data in Tables 10a and 10b indicate, Asian branches are similar to those in Latin America in that they derive a smaller proportion of their funds from the interbank market than the average for all branches. Moreover, the funds which these branches supplied to the interbank market declined between 1971 and 1973. The most notable characteristic of these branches, however, is the large proportion of funds which they supply to private foreign borrowers and—relative to the average for all branches—the high proportion of funds derived from this source as well. Another characteristic of these offices which represents a departure from the norm is the relatively high proportion of funds obtained from and supplied to the parent banks in both 1971 and 1973. These ratios are substantially higher than for branches in any other area in this period.

CHAPTER 3

Foreign Subsidiaries and Affiliates of U.S. Banks

The catalogue of foreign subsidiaries and affiliates of U.S. banks (Appendix A) presents an extraordinary picture of the range of activities of the larger U.S. banks and their importance in both international and national financial markets around the world. The list of countries in which they own companies (Table 1) documents the rapidity of growth in this area. In 1966 U.S. banks had investments overseas in a total of 123 companies in 43 countries. By 1971, they owned interests in 416 companies in 74 countries. Between 1971 and 1973, there was a substantial increase in the number of foreign companies owned to 1670. Some of this increase is due to the inclusion of information on a few bank holding companies which were not included in earlier tabulations, but it is also due to *de novo* acquisitions by bank holding companies following the enactment of the 1970 Bank Holding Company Amendments. There was a virtual explosion in overseas activities as a result of the growth in foreign investments and branch assets in 1973. By the end of that year, U.S. banks held equity interests in companies in 102 countries. Before discussing U.S. banks' investments in these companies, it might be useful to provide the legal and structural framework in which they are made.

TABLE 1.—NUMBER OF OVERSEAS SUBSIDIARIES AND AFFILIATES OF U.S. BANKS IN INDIVIDUAL COUNTRIES, 1966, 1971, 1973

Country	1966	1971	1973	Country	1966	1971	1973
Afghanistan	0	0	1	Libya	1	0	1
Angola	0	0	2	Luxembourg	3	14	50
Argentina	3	9	32	Macao	0	0	2
Australia	4	29	90	Malaysia	1	5	9
Austria	1	6	8	Martinique	0	0	1
Bahamas	5	17	41	Mauritania	0	0	2
Belgium	1	10	44	Mexico	4	8	30
Bermuda	1	2	3	Morocco	0	5	8
Brazil	2	12	95	Monaco	0	0	1
Bolivia	0	0	2	Netherlands	3	7	12
British Honduras	0	1	1	Netherland Antilles	0	3	9
Burundi	0	0	1	New Caledonia	0	1	1
Cameroon	1	2	2	New Hebrides Trust Administration	0	0	1
Canada	6	9	95	New Zealand	0	2	7
Cayman Islands	0	5	17	Nicaragua	1	4	10
China	0	0	2	Nigeria	0	3	7
Chile	0	0	3	Norway	0	1	1
Congo (Brazzaville)	0	2	2	Oman	0	0	1
Colombia	2	11	31	Pakistan	0	2	1
Costa Rica	0	6	20	Panama	1	6	28
Denmark	0	1	2	Paraguay	0	0	2
Dominican Republic	0	0	4	Papua and New Guinea	0	1	1
Dubai Trucial States	0	3	4	Peru	2	2	8
Equador	0	5	7	Philippines	7	9	22
El Salvador	2	2	1	Portugal	0	1	2
England	19	45	214	Puerto Rico	0	2	29
Fije	0	0	1	Rwanda	0	1	1
Finland	0	2	2	Senegal	1	2	3
France	8	22	88	Singapore	1	3	11
Gabon	1	1	1	South Africa	2	2	8
Germany	2	9	33	Spain	9	14	23
Ghana	0	1	1	Surinam	0	0	1
Greece	1	3	5	Sweden	0	1	2
Guam	0	0	2	Switzerland	5	16	33
Guatemala	1	2	3	Tahiti	0	1	3
Haiti	0	0	1	Tonga	0	0	1
Honduras	2	4	14	Taiwan	3	4	7
Hong Kong	1	6	38	Thailand	0	8	24
Italy	4	11	33	Tunisia	1	3	4
India	0	2	8	Turkey	1	3	4
Indonesia	0	1	10	United States	0	0	55
Iran	1	4	8	Uganda	0	0	1
Ireland	0	2	17	Uruguay	0	0	1
Israel	0	2	28	Venezuela	2	5	27
Ivory Coast	2	3	3	Western Sanoa	0	0	2
Jamaica	0	5	13	Virgin Islands	1	1	2
Japan	0	8	13	Yugoslavia	0	0	2
Jordan	0	0	2	Zaire	0	3	9
Korea	0	1	3	Zambia	1	1	1
Kenya	0	0	1				
Lebanon	0	3	14				
Liberia	3	3	20	Companies	123	416	1,670
Liechtenstein	0	0	3	Countries	43	74	102

Note: These numbers differ from those given for total investments since several banks in some cases have investments in the same company.

Source: Federal Reserve Board; compiled by committee staff.

EDGE ACT CORPORATIONS

The Edge Act Corporations, authorized by legislation sponsored by Senator Walter Edge in 1919, are domestic subsidiaries chartered by the Federal Reserve Board and empowered to engage in international banking and overseas investment activities similar to those permitted state chartered corporations—the so-called "Agreement" corporations—which had been brought under Federal Reserve Board

regulation in 1916.[1] These corporations were a favored vehicle for international operations of U.S. banks in the post-World War I era but had declined significantly in importance by 1925 and until the mid 1950s—due to the Depression and World War II—were all but abandoned. Of the 6 banks with Edge or Agreement Corporations in 1955, all had a tradition of overseas banking and 4 of the corporations had been in existence before World War II.[2]

Edge Corporations are prohibited from carrying on any part of their business in the United States except that which, in the judgment of the Board of Governors of the Federal Reserve System, is incidental to their foreign business. The legislative history of the Act passed in 1919 indicates that the intent was to insulate international banking activities from the domestic credit structure. Edge Corporations may receive deposits outside the United States but can receive only demand deposits within the United States which are incidental to or for the purpose of carrying out transactions overseas.[3] They may invest in the stock of other corporations [4] but are prohibited from investing in the stock of corporations engaged in the general business of buying or selling goods, wares, merchandise or commodities in the United States or transacting any business in the United States except that which may be incidental to their international or foreign business. Because Edge Corporations are authorized only to conduct an international or foreign banking business, they can be formed in consortium with other U.S. banks and non-banking firms and may be established in a State or States other than that in which the parent bank is located. They are also not subject to domestic restrictions separating commercial and investment banking.[5]

The surge in international lending by banks in the United States was partly responsible for a 5-fold increase in the number of banks with Edge Corporations in the period 1955 and 1965 and a 6-fold increase in the number of corporations. Edge Act Corporations acted as New York branches for the international departments of banks located in other States. Banks without the resources necessary to establish branches found it convenient to invest in foreign banks

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[1] Section 25 of the Federal Reserve Act authorizes investments by national banks in state chartered Agreement corporations provided these corporations enter into an agreement with the Board to be governed by Board regulation. Because investments in Edge Corporations were authorized later and under somewhat more restrictive conditions, Agreement Corporations were the more popular vehicle for international operations in the pre-Depression period. Today both types of corporations are subject practically to the same regulatory treatment and differ only in that Agreement corporations are more limited in the scope of their activities under law and are not subject to the minimum capital requirement of $2 million as are Edge corporations. Of the 85 corporations in existence at the end of 1971, only 5 were Agreement corporations. These 5 are either maintained for historical reasons, conduct specialized operations or do not need $2 million capital.

[2] These banks were First National City Bank, First National Bank of Boston, Chase Manhattan Bank N. A., Bankers Trust Co., Morgan Guaranty Trust Co., and Bank of America NT&SA. All but Morgan Guaranty and Bank of America had established corporations by 1938. In 1945, Morgan & Cie., Paris, a subsidiary of J. P. Morgan and Co., became an Agreement Corporation and in 1949 Bank of America was chartered as an Edge Act subsidiary in New York City.

[3] Deposits received in the United States are subject to reserve requirements of no less than 10 per cent. In addition, the aggregate amount of liabilities outstanding may be limited by the Board. For these and other provisions, see Section 25(a), Federal Reserve Act.

[4] An Edge Corporation cannot invest more than 10% of its capital stock in any one corporation except corporations engaged in banking in which case the limit is 15%. It cannot hold stock in a corporation with which it is in competition or which holds stocks in other corporations which are in competition with the purchasing corporation.

[5] There was only one Edge Corporation in operation when the Glass-Steagall Act was passed in 1933, and the corporations were not included in its restrictions on purchasing, selling, underwriting and holding investment securities and stocks. In 1957 the Board amended Regulation K in an effort to make the operations of the corporations conform somewhat more closely to domestic restrictions by requiring that the operations of a corporation be confined either to commercial banking or to investment banking. As a result, 11 banks acquired "twin" corporations to engage in both types of operations. In 1963, Regulation K was again revised and Edge Corporations were again allowed to combine investment and commercial banking under one roof.

through the corporations. Moreover, the flexibility of an Edge Corporation and range of its permissable activities was much greater than that of branches. The extraordinary increase in the number of equity investments of Edge and Agreement Corporations—from 12 in 1955 to 260 in 1965—illustrates the extent to which their investment potential favored their growth during this period.[6]

DIRECT INVESTMENTS IN FOREIGN BANKS

U.S. banks, not surprisingly, respond to pressures from their customers. With the imposition of the Voluntary Foreign Credit Restraint guidelines in February 1965, their response was to seek funds overseas to continue the foreign lending activities built up by their home offices. This response was applauded and facilitated by the regulatory authorities.[7]

The structure of U.S. international banking operations in 1965 suggested that the movement of foreign lending overseas would occur through the Edge Corporations and thier foreign subsidiaries. The three largest banks—Bank of America, Chase Manhattan Bank and First National City Bank—had extensive overseas branch networks but in 1965 and 1966, only 9 other banks [8] had foreign branches and only 4 of these had branches in locations other than London. The fact that 16 other banks had established Edge Corporations and were engaged in overseas banking operations through investments in foreign financial institutions by the corporations indicated that this would be the preferred method of shifting foreign lending overseas for the majority of U.S. banks.

In July 1966, Section 25 of the Federal Reserve Act was amended to permit national Banks to invest up to 25 per cent of capital and surplus in one or more foreign banks without having to arrange such investments indirectly through Edge Corporations.[9] While U.S. banks and bank holding companies making direct investments overseas are restricted to investments in banking institutions, the foreign banks and bank holding companies in which they may invest are not so restricted.[10] Foreign banks and bank holding companies which are direct subsidiaries or affiliates of U.S. banks may hold investments in other banks, financial institutions or nonfinancial institutions. There is, therefore, very little difference in latitude or scope of operations possible in terms of overseas subsidiary and affiliate realtionships through either direct equity investments or those made through Edge Corporations.[11]

The 1966 amendments to the Bank Holding Company Act also permitted a regulated multi-bank holding company to acquire directly foreign institutions principally engaged in banking without Federal Reserve Board approval. In 1970 an amendment was added which required prior approval by the Board and waived the restriction of

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[6] In 1965, Edge Corporations held 70 investments in banking institutions at a cost of $91.9 million, 159 investments in other financial institutions at a cost of $50.8 million and 31 investments in nonfinancial companies at a cost of $3.6 million. (*The International Operations of U.S. Banks*, Division of Supervision and Regulation, Board of Governors of the Federal Reserve System, 1968, p. IV–14.)

[7] See Section on Supervision and Regulation.

[8] The 13th bank was the Virgin Islands National Bank, a subsidiary of First Pennsylvania Banking & Trust Co., organized as an Agreement Corporation which had 2 braches in the British Virgin Islands.

[9] The provision was suggested by Comptroller of the Currency James J. Saxon as an amendment to the Senate version of the Bank Holding Company Act Amendments of July 1966.

[10] See Section 2(n) of the Bank Holding Company Act of 1956 as amended by Act of July 1, 1966.

[11] There are some advantages in choosing to invest in foreign subsidiaries through Edge Corporations—centralization and a greater degree of control over investments and limitation of responsibility for the liabilities of subsidiaries to the amount of the Edge Corporation's capital.

such investments to banks. Bank holding companies are now able to invest in any company in which an Edge Corporation can invest under Section 25a of the Federal Reserve Act, subject to approval and regulation by the Board. However, the capital and surplus limitations which apply for foreign investments of Edge Corporations and member banks do not apply for bank holding companies.

ACTIVITIES OF SUBSIDIARIES AND AFFILIATES

The staff of the Federal Reserve Board has provided data on the foreign equity investments of the 30 largest U.S. banks, their parent holding companies and their Edge Act and Agreement Corporations (Tables 2 and 4) which give some indication of the pattern of investment by type and the nature of activities of subsidiaries and affiliates. As of year-end 1974, these banks had invested $1.6 billion overseas of which $1.1 billion was invested in commercial, merchant and investment banks and trust companies. Information on assets is available only for subsidiaries. Since investments in subsidiaries ($792 million) are only about half the total invested, the $23.2 billion in assets stated in Table 4 is a very conservative measure of the size of U.S. banks' holdings overseas.[12]

[12] It is also conservative because it excludes investments made by foreign affiliates unless the affiliate is primarily a holding company in which case the investments of the holding company are listed but not the holding company itself.

TABLE 2.—FOREIGN INVESTMENTS OF 30 LARGEST BANKS,[1] 1969 AND 1974

[Number of investments in foreign companies; amount invested in millions of dollars]

Form of ownership	Total: All institutions			Banks [2]			Finance companies [3]			Other companies [4]		
		Investment			Investment			Investment			Investment	
	Number	Amount	Percent of total	Number	Amount	Percent of total	Number	Amount	Percent of total	Number	Amount	Percent of total
1969:												
Subsidiaries	82	152	37.3	41	106	39.7	33	40	35.7	8	6	21.4
Joint ventures	42	86	21.1	16	59	22.1	22	21	18.8	4	6	21.4
Minority interests	321	169	41.5	63	102	38.2	157	51	45.5	101	16	57.1
Total	445	407	100.0	120	267	100.0	212	112	100.0	113	28	100.0
1974:												
Subsidiaries	311	792	48.4	122	550	49.7	156	228	48.2	333	14	23.7
Joint ventures	108	403	24.6	48	289	26.1	46	110	23.3	14	4	6.8
Minority interests	521	443	27.0	162	267	24.1	191	135	28.5	168	41	69.5
Total	940	1,638	100.0	332	1,106	100.0	393	473	100.0	215	59	100.0
Changes: 1969–74:												
Subsidiaries	229	640	52.0	81	444	52.9	123	188	52.1	25	8	25.8
Joint ventures	66	317	25.8	32	230	27.4	24	89	24.7	10	−2	−6.4
Minority interests	200	274	22.3	99	165	19.7	34	84	23.3	67	25	80.6
Total	495	1,321	100.0	212	839	100.0	181	361	100.0	102	31	100.0

[1] Definitions: Subsidiaries—50 percent or more owned. Controlled affiliates—25 to 50 percent owned. Affiliates—Less than 25 percent owned.

[2] Banks include commercial banks, merchant banks, investment banks and trust companies.

[3] Finance companies include commercial and consumer finance companies, leasing companies, factoring companies, development finance companies and other companies involved in lending money.

[4] Other includes premises holding companies, investment advisory companies, data processing companies, industrial, commerical and real estate firms.

Source: Federal Reserve Board.

TABLE 3.—FOREIGN INVESTMENTS OF 30 LARGEST U.S. BANKS—PERCENTAGE OF DOLLAR AMOUNTS INVESTED BY TYPES OF INSTITUTIONS, 1969, 1974 [1]

[In percent]

Subsidiaries	Banks [2]	Finance companies [3]	Other [4]
1969	69	26	3
1974	69	28	1
Controlled affiliates:			
1969	68	24	6
1974	71	27	1
Affiliates:			
1969	60	30	9
1974	60	30	9

[1] Definitions: Subsidiaries—50 percent or more owned. Controlled affiliates—25- to 50-percent owned. Affiliates—less than 25 percent owned.
[2] Banks include commercial banks, merchant banks, investment banks, and trust companies.
[3] Finance companies include commercial and consumer finance companies, leasing companies, factoring companies, development finance companies and other companies involved in lending money.
[4] "Other" includes premises holding companies, investment advisory companies, data processing companies, industrial, commercial ,and real estate firms.

Source: Federal Reserve Board.

TABLE 4.—ASSETS, LIABILITIES, AND EARNINGS OF FOREIGN SUBSIDIARIES OF 30 LARGEST U.S. BANKING ORGANIZATIONS, 1974 [1]

[Amounts in millions of dollars]

Category	All foreign subsidiaries		Banks [2]		Finance companies [3]		Leasing companies		Other subsidiaries [4]	
	Amount	Percent distribution	Amount	Percent distribution	Amount	Percent distribution	Amount	Percent distribution	Amount	Percent distribution
Assets:										
Cash and due from banks	6,015	25.9	5,893	29.6	111	4.1	9	1.5	2	2.6
Loans	13,274	57.1	10,761	54.0	2,327	87.8	183	30.5	3	3.8
Other assets	3,949	17.0	3,256	16.4	212	8.0	408	68.0	73	93.6
Total assets	23,238	100.0	19,910	100.0	2,650	100.0	600	100.0	78	100.0
Liabilities and capital:										
Deposits	16,395	70.6	16,395	82.3	----	----	----	----	----	----
Capital	1,182	5.1	906	4.6	202	7.6	55	9.2	19	24.4
Other liabilities	5,661	24.4	2,609	13.1	2,448	92.4	545	90.8	69	75.6
Total, liabilities and capital	23,238	100.0	19,910	100.0	2,650	100.0	600	100.0	78	100.0
Memorandum:										
Net income	72		59		12		3		(2)	
Percent of total assets	0.31		0.30		0.45		0.50		--------	
Capital/asset ratio	5.09		4.55		7.62		9.17		24.36	

[1] Definitions: Subsidiaries: 50 percent or more owned. Controlled affiliates: 25 to 50 percent owned. Affiliates: Less than 25 percent owned.
[2] Banks include commercial banks, merchant banks, investment banks, and trust companies.
[3] Finance companies include commercial and consumer finance companies, leasing companies, factoring companies, development finance companies and other companies involved in lending money.
[4] Other includes premises holding companies, investment advisory companies, data processing companies, industrial, commercial, and real estate firms.

Source: Federal Reserve Board.

Table 4 also provides a breakdown of assets and liabilities of foreign subsidiaries by type of activity. It indicates that, as in the United States, almost all of the assets of finance companies are loans and almost all of their liabilities are borrowed funds. They make commercial and consumer loans, do factoring and provide funds for investment. Leasing companies use less than ⅓ of their resources for loans, having the bulk invested in equipment. Their sources of funds are largely borrowings but they do have substantial ratios of capital

to assets. Other subsidiaries are companies which are not in the business of lending money. They include premises holding companies, investment advisory companies, data processing companies, industrial, commercial and real estate firms and even mines, farms and hotels. Capital funds provide almost a quarter of their liabilities.

As the table indicates, only the banking subsidiaries accept deposits. But the available data does not reveal sources or maturities of deposits. It is difficult to determine from this information what proportion of total assets are held by commercial banks as opposed to merchant and investment banks. Most of the liabilities of subsidiaries engaged in commercial banking would be in the form of deposits of individuals, partnerships and corporations with a high proportion of demand deposits. Merchant and investment banks obtain a majority on their funds by borrowing from commercial banks and other financial and nonfinancial institutions. But these borrowings and interbank placements are often termed deposits. The aggregate data on deposits in Table 4 does not indicate what proportion is derived from other banks and it may be that, as is true of foreign branches, funding of U.S. banks' foreign subsidiaries largely is provided by the parent bank network or other banks. It is likely that the foreign branches are major depositors in the parent banks' merchant and investment banking subsidiaries.

Data on the asset side is also inadequate for an analysis of the lending activities of foreign banking subsidiaries. There is no breakdown of loans as between bank and nonbank borrowers, but a high proportion of assets is labeled "cash and due from banks" which, again, is similar to the profile of foreign branches. It is possible, in fact, that the activities of banking subsidiaries overseas differ very little from those of branches except that they have additional powers. The nature of these expanded powers and the reason why—if this hypothesis is correct—U.S. banks would establish banking subsidiaries in areas where they can have or do have branches is provided in the following response by Federal Reserve Board Chairman Arthur Burns to questions submitted by Rep. Wright Patman:

"Underwriting and dealing in securities has become an important activity in foreign affiliates of U.S. banks in recent years with the development and growth of the Eurobond market and to a much lesser extent a Euro-equity market. These affiliates are of two general types: consortium banks in which one or more American banks have combined with European and sometimes Japanese banks; and wholly-or-majority-owned subsidiary "merchant" banks. Among these affiliates, there is substantial variation in the extent and nature of their underwriting activities. The bulk of the business of these consortia and merchant banks is medium-term lending, including the formation of large lending syndicates. In the underwriting area, activity has been mainly confined to Eurobond issues; participation in equity issues has been fairly rare, In Eurobond issues , only a few of these affiliates have been managers or co-managers of issues; the others have been largely among the principal underwriters or in the selling group. Among the more active affiliates in the underwriting business have been Bankers Trust International (a wholly-owned subsidiary of Bankers Trust Company), Manufacturers Hanover Ltd. (a majority-owned subsidiary of Manufacturers Hanover Trust Company) and Western American Bank Ltd. (a consortium controlled by National Bank of Detroit, Security Pacific National Bank and Wells Fargo Bank). No data are available on the extent to which these European affiliates have participated in underwriting syndicates. More recently, interest has been developing in the establishment of similar types of affiliates in other areas, notably in Southeast Asia where local and international money and capital markets are in the process of formation." [13]

[13] *Economic Report of the President*, Hearings before the Joint Economic Committee, February 20, 1973.

As this description and the data indicate, the international activities of U.S. banks appear to be largely involved with what is now called wholesale banking. In the major banking subsidiaries, as well as in branches, the emphasis is on large scale, medium to long-term credits to nonbank borrowers and relatively large, short-term credits to financial institutions. There appears to be relatively little retail banking activity by arms of U.S. banks in foreign markets other than that which is done in less developed countries.[14] Consumer lending is done mostly through finance companies. A very small proportion of the foreign loans made by overseas offices of branches, subsidiaries and affiliates is supported by private nonbank deposits.

A COMPARISON OF THE OVERSEAS BRANCHES AND SUBSIDIARIES OF THE 30 LARGEST U.S. BANKS

Between 1969 and 1974, the 30 largest banks, their parent holding companies and their Edge Act and Agreement Corporations invested $1.3 billion or about $260 million a year in companies overseas. They invested $839 million in banks during this 5-year period, much of it in merchant and investment banking companies. About 27 percent of the additional funds were used as capital for finance companies. Although U.S. banks have equity investments in more than 1,550 foreign companies and a substantial number of additional offices through branch operations of these companies, it is clear that branches are the preferred form of operation overseas. Table 5 provides a comparison of branches and subsidiaries which indicates that 85 percent of total foreign assets are held by branches and 90 percent of total foreign income is derived from them. The rate of return on foreign branch assets is .50 percent of total assets. As Table 4 reveals, the rate of return on foreign banking subsidiaries of the 30 largest banks is .30 percent, substantially lower than for branches. In 1974, only the leasing companies had a rate of return equal to that of the branches, the return on assets of finance companies being only .45 percent.[15] The comparison also reveals that finance and leasing company subsidiaries have very high capital-to-asset ratios as compared to banking subsidiaries. Branches are not required to have capital since they are part of the parent bank and dependent upon its capital structure.[16]

TABLE 5.—INVESTMENTS, ASSETS, AND INCOME OF FOREIGN BRANCHES AND SUBSIDIARIES OF 30 LARGEST BANKS 1974

[In millions of dollars and as percent total]

	Overseas offices		Amount invested		Assets		Net income	
	Number	Percent total	Amount	Percent total	Amount	Percent total	Amount	Percent total
Branches	616	66.5	NA	NA	$132,546	85.4	$663	90.2
Bank subsidiaries	122	13.2	$550	69.4	19,910	12.8	59	8.0
Finance company subsidiaries	156	16.8	228	28.8	2,650	1.7	12	1.6
Other subsidiaries	33	3.6	14	1.8	678	0	1	0
Total	927	100.0	792	100.0	155,238	100.0	735	100.0

NA—Not applicable.

Source: Federal Reserve Board; compiled by committee staff.

[14] There are, of course, exceptions. One notable exception is Bank of America's subsidiary, Banca D'America e d'Italia, one of the larger private banks in Italy with deposits of $1,791,683,000.

[15] It should be noted, however, that while the types of assets of foreign branches and foreign banking subsidiaries are comparable, those of finance and leasing companies are not comparable to branch assets.

[16] Some countries do require that the parent provide capital funds in the form of a donation or special segregated accounts. As a ratio to total assets, the amounts which have been required are insignificant.

At year-end 1974, investments in all foreign finance companies were \$473 million or 29.9% of the total and investments in finance company subsidiaries totaled \$228 million or 28.8% of the book value of all subsidiaries. But the assets of finance company subsidiaries (\$2.65 billion) were only 11.4% of the total for all subsidiaries and only 1.7% of the total for branches and subsidiaries. Banking subsidiaries, with \$550 million of capital, have total assets of \$19.9 billion. As already noted, finance companies controlled by these 30 banks provided a higher rate of return on assets than did the banking subsidiaries in 1974, but the rate of return on capital—5.26% for finance companies; 10.72% for banks—was half as great. Since branches are not separately capitalized, the rate of return on capital would have to be based on the capital of the parent bank.[17]

The rates of return on assets of branches and subsidiaries are significant in the context of arguments for the necessity of liberalizing the range of activities for overseas offices to make U.S. banks competitive with those in the country in which they are operating. Although branches are restricted to the range of activities permitted U.S. domestic offices, it does not appear that they suffer competitive disadvantages from being forced to reflect U.S. banking structure in this respect.

THE STRUCTURE OF OVERSEAS INVESTMENTS

There were significant changes in the pattern of overseas investment between 1969 and 1974. The number and dollar value of minority holdings as a percentage of the total has declined substantially.

Channels of investment have also shifted. The share of total investments held by Edge corporations dropped from 91.2% in 1971 to 73.1% in 1974. This reflects the fact that much of the new equity investment overseas has been made directly by banks and bank holding companies. These developments have important implications for the management of overseas activities by banks and for their supervision by regulatory authorities as well.

In 1969, only 37.3% of all funds invested overseas by the 30 largest U.S. banks were invested in subsidiaries in which they had a controlling interest. As Table 2 reveals, the share invested in subsidiaries had grown to nearly half (48.4%) in 1974, and about half of all investments in banks (49.7%) and finance companies (48.2%) were in companies in which the banks' held a majority of the stock and exercised managerial control. There was also an increase in the proportion of funds invested in joint ventures in which the individual bank also exercises a substantial degree of control. The growth of joint investments is reflected in data on equity investments in both banks and finance companies.

Minority investments in other companies have increased but, while there has been a four-fold increase in the amount invested in all institutions, investments in nonfinancial companies have only doubled and remain below \$60 million. Some of this amount reflects equity participations undertaken by the banks' subsidiaries overseas as part of their lending activities.

During the same period that banks shifted much of their new equity investments to holdings in foreign companies in which they exercise control, they also indicated a preference for direct investment. As

[17] The Committee staff has compiled data on capital funds of the 20 largest banks but does not have this information for the 30 banks in the Federal Reserve Board series on overseas investments.

noted above, a 1966 amendment to Section 25 of the Federal Reserve Act had allowed banks to invest directly in foreign banks. In 1971, 14 banks had utilized this authorization and had interests in 63 foreign banks (see Table 6). By 1973, 21 banks had made direct equity investments in 198 institutions.

TABLE 6.—OVERSEAS INVESTMENTS OF BANKS, BANK HOLDING COMPANIES, AND EDGE AND AGREEMENT CORPORATIONS, DEC. 31, 1971, DEC. 31, 1973

	1971		1973	
	Number	Percent of total	Number	Percent of total
Banks with overseas investments	14	15	21	14.0
Bank holding companies with overseas investments	10	11	28	18.5
Edge and agreement corporations with overseas investments	70	74	102	67.5
Total	94	100	151	100.0
Overseas investments of banks	63	4.5	198	11.2
Overseas investments of bank holding companies	60	4.3	280	15.8
Overseas investments of edge and agreement companies	1,267	91.2	1,297	73.1
Total	1,390	100	1,775	100.0

Source: Federal Reserve Board; compiled by committee staff.

Bank holding companies have made an even more dramatic entry into overseas activities. The 1970 amendments to the Bank Holding Company Act permitted one bank holding companies to make equity investments overseas in companies in which Edge Act corporations can invest but without the statutory limits on such investments in relation to capital that apply to banks and Edge corporations. This liberalization of investment authority was utilized immediately. One year after enactment, 10 bank holding companies had made equity investments in companies engaged in international activities. Between 1971 and 1973, the number of bank holding companies with foreign affiliates rose to 28 and the companies in which they held equity interests grew to 280.

As noted above, some of the 1973 increase reflects data on holding companies in which banking is not the principal activity.[18] Nevertheless, the increase in equity investments by one bank holding companies in which the bank is the principal subsidiary has been very significant. The number of equity investments made by the largest one bank holding companies indicates the importance of this channel. The 1970 amendment provided a new avenue for overseas growth for several banks who were up against the statutory limit on new equity investments through the bank and its Edge Corporations. Since there has been relatively little addition to their capital, these banks can be expected to continue to expand their overseas holdings through investments by the holding company.

As Table 6 indicates, Edge corporations retain their preeminent position as the principal vehicle for overseas equity investments. But the growth of equity investment through the Edge corporations has slowed to a virtual standstill. Between 1971 and 1973 only 4 additional Edge corporations made equity investments in foreign

[18] For example the King Ranch and the Baldwin Piano Company. The former owns ranches in a number of foreign countries and properties in the United States as well, while the latter owns a 73% interest in C. Bechstein, another important piano company in Germany.

companies and only 30 new companies were acquired or established by all the corporations out of a total of 385 foreign companies acquired or established during the 2-year period.

An increase in foreign equity investment through bank holding companies has important implications for the structure of the banking system and for bank regulation. The activities undertaken overseas by holding companies are not restricted to those closely related to banking as are domestic activities. As the discussion below of acquisitions by holding companies in Canada indicates, the dike which separates the land of banking from the sea of commerce has sprung a leak. A regulatory strategy to deal with the problems which may emerge out of the potential for conflicts of interest in this area has not yet been devised. The fact that there is no statutory limit on expansion of overseas activities by bank holding companies in relation to capital means that regulatory authorities—the Federal Reserve Board at present—have a free hand in establishing a regulatory policy in this area which will govern future activity and define the future role of the holding company in the banking system. A former Federal Reserve Board Governor, Andrew Brimmer, has recommended an even more liberal attitude toward holding company activity.[19] In a recent joint paper with Dr. Brimmer, a senior member of the Board's staff appears to disagree with this approach.[20] The direction that will ultimately be taken by regulatory policy in this area is not clear.

Meanwhile, other managerial and regulatory problems arise because of the pattern of indirect investment in overseas companies revealed in Charts I through V. Banks which hold investments through Edge corporations do so at arms length. The Edge corporation is itself a subsidiary and presumably offers a degree of protection to the bank in that whatever problems occur in subsidiaries and affiliates of Edge corporations infringes on the capital first of the subsidiaries and then of the Edge Corporation and not on that of the parent bank itself. On the other hand, examples of ways in which banks have handled problems in subsidiaries do not indicate a willingness to fail in order not to impair the capital of the parent. Frequently, the bank considers that any reflection on its name as a result of failure to support a subsidiary would be more costly in terms of market reaction than would even a substantial decline in profits as a result of the need to support a troubled subsidiary. Meanwhile, the Bank of England has obtained agreements from U.S. banks that they will stand behind subsidiaries and consortia in London and in several cases substantial infusions of funds by U.S. banks have been necessary and were supplied.

But if the arms-length pattern of investment through Edge corporations does not have the advantage of protecting the parent, what other advantage can it be said to have? It is, of course, a way of leveraging overseas activities since investments through subsidiaries of the bank or its Edge corporation do not count against statutory restrictions on investments in relation to the bank's or corporation's capital.

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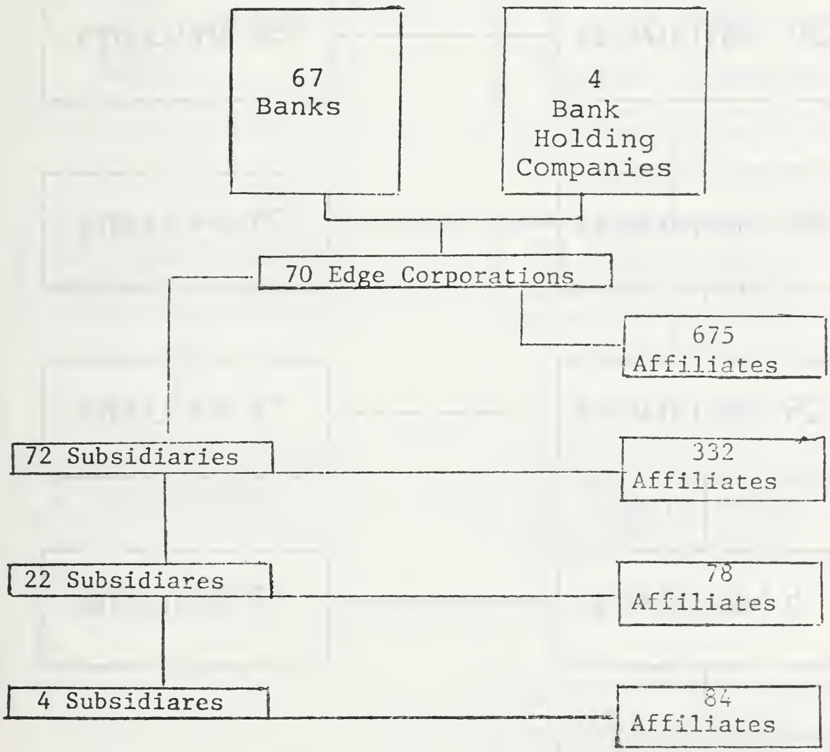
[19] Andrew F. Brimmer, "Perspectives on Foreign Activities of American Banks," testimony before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Currency and Housing, December 5, 1975.

[20] Andrew F. Brimmer and Frederick R. Dahl, "Growth of American International Banking: Implications for Public Policy," paper presented before American Economic Association and the American Finance Association, December 28, 1974.

But placing a subsidiary such as an Edge corporation between a bank and, for example, a major merchant banking subsidiary in London may result in some loss of managerial control. Interposing a number of additional subsidiaries as well between the bank or holding company and subsidiaries or affiliates presents a very complicated organizational structure as the charts reveal.

CHART I

EDGE CORPORATION LINKS TO SUBSIDIARIES AND AFFILIATES, Dec. 31, 1971



In Chart II, for example, the last block on the left is a subsidiary of a subsidiary of a subsidiary of a subsidiary of a subsidiary of an Edge Corporation which is a subsidiary of a bank. Moreover, it should be noted that the 47 affiliates in the last block on the right are equity holdings of 5 companies which are subsidiaries of subsidiaries of subsidiaries of subsidiaries of Edge Act Corporations. This chart lists a total of 1,297 companies in which U.S. banks hold equity interests

CHART II

EDGE CORPORATION LINKS TO SUBSIDIARIES AND AFFILIATES

DEC. 31, 1973

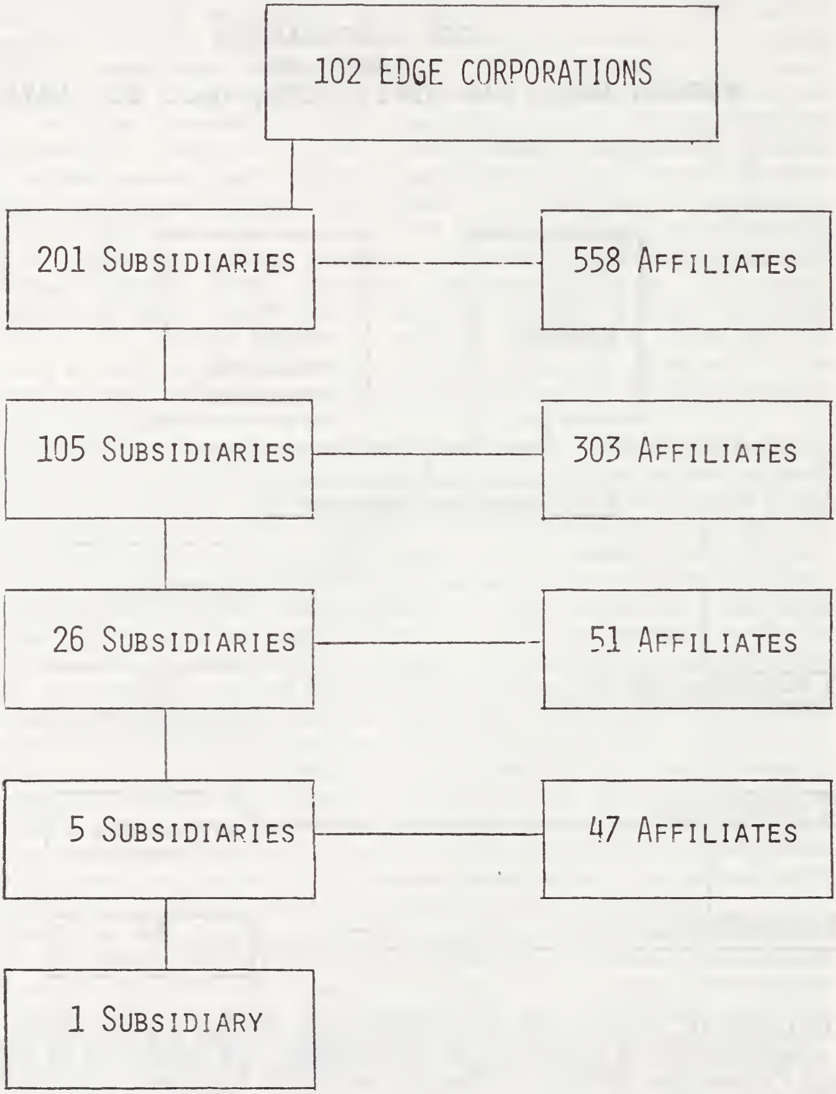


CHART III

BANK AND BANK
HOLDING COMPANY
LINKS TO SUBSIDIARIES
AND AFFILIATES, DEC. 31, 1971

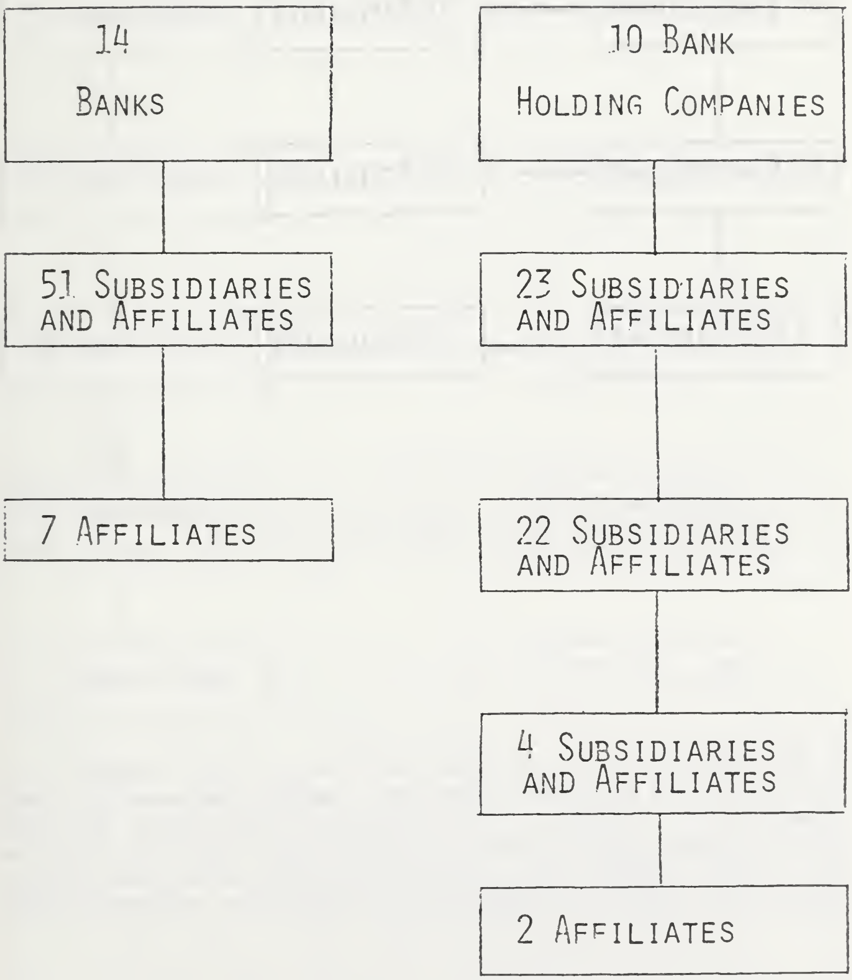


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CHART IV

BANK LINKS TO SUBSIDIARIES AND AFFILIATES, DEC. 31, 1973

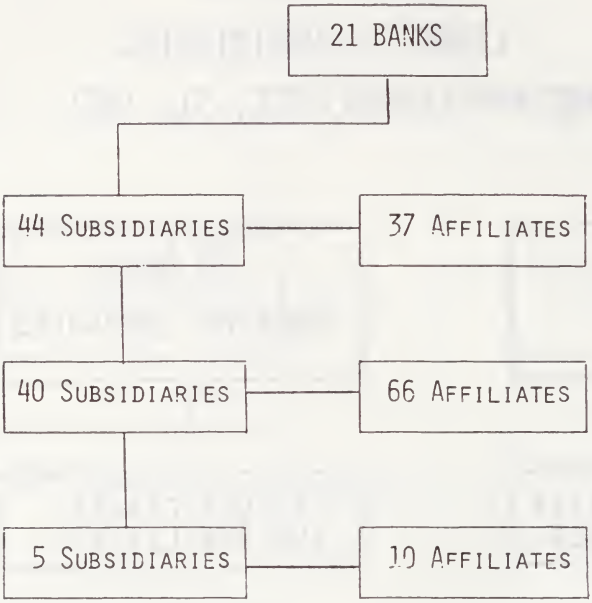
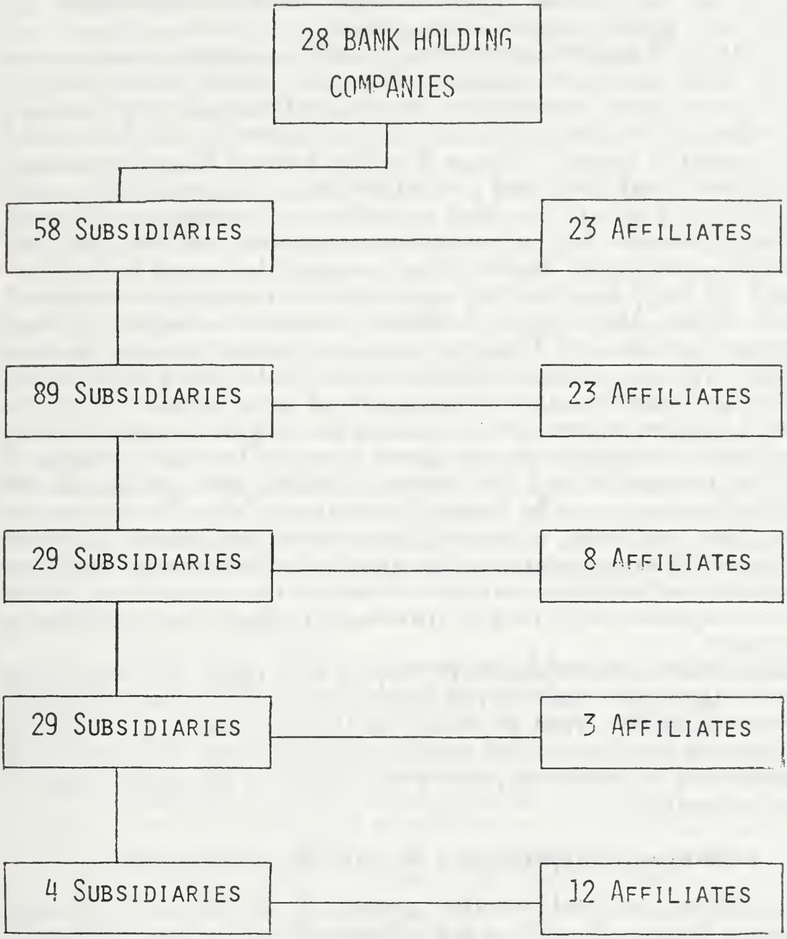


CHART V

BANK HOLDING COMPANY LINKS TO SUBSIDIARIES AND AFFILIATES

DEC. 31, 1973



but in which interest is not directly held by the bank. While 959 of these companies are affiliates not directly controlled by the banks or their U.S. based Edge Corporations, 338 companies are subsidiaries for which the banks may assume some degree of responsibility. That 105 companies with equity investments in 303 affiliate and 26 subsidiary companies are subsidiaries of subsidiaries of Edge Corporations

and reflect ownership and control at a level which is 3 times removed from the bank makes it almost certain that the bank does not exercise a degree of managerial control which is consistent with its responsibility for the soundness of these companies. But such responsibility is necessary since even small banks like Herstatt which are engaged in international activities can precipitate crises in international markets if they are poorly managed or inadequately supervised. Foreign exchange losses in overseas offices of major banks also illustrate the need for close management and supervision by the home office.

The pattern of indirect investment through subsidiaries also creates problems with respect to regulation. What the charts do not reveal is that, in many cases, investments which are held indirectly through subsidiaries are not always located in the country in which the subsidiary parent is located. Thus, a New York based Edge Corporation of a California bank may have a subsidiary in Luxembourg which owns a subsidiary in Paris. In one case, an important overseas subsidiary of an Edge corporation has an interest in a company in which the Edge corporation also has an interest. The company is located in Switzerland and is a fairly large holding company which operates a number of banks in Africa. Moreover, it is difficult to assess the impact of these investments on the U.S. banking system or banking systems in other countries. The only available financial data in this area are confined to cost of primary investments and assets of subsidiaries.

Such a pattern raises questions as to the degree of responsibility of regulatory authorities in any given country for the activities of individual companies and the degree to which the activity of the individual company can be isolated from that of all other companies in the chain, including ultimately the parent bank itself. Another question which arises relates to the amount of information available to regulatory authorities in any given country concerning the activities of other companies which own or are owned by the company located in that country.

Finally, how much responsibility should U.S. regulatory authorities accept for the entire chain of relationships and, if they do accept primary responsibility, what problems do they encounter in exercising the degree of regulation and supervision necessary to ensure that management is adequate to protect the capital of the parent bank or holding company?

GEOGRAPHIC DISTRIBUTION OF OVERSEAS INVESTMENTS

It is difficult to evaluate the pattern of distribution of foreign investment because there is no break-down of either assets or amounts invested by country or geographic region. In terms of numbers of investments by country and area, the largest concentrations are in Europe and the United Kingdom (about 36% of the total number), Asia and Latin America. There are more investments in England (214) than in any other country. Two other English speaking countries also have substantial shares of the total number of foreign investments of U.S. banks—Canada (95) and Australia (90). Other countries which have proved attractive for investment are Brazil (95), France (88), Luxembourg (50), Belgium (44), the Bahamas (41), Hong Kong (38), Germany (33), Italy (33), Switzerland (33), Argentina (32), Colombia (31), and Mexico (30). Some of the reasons why U.S. banks have established subsidiaries and affiliates in individual countries

and areas and the form these investments have taken are discussed below.

England

Very few of the companies in which U.S. banks hold interests are engaged in commercial banking since these activities are handled by the banks' branches which are also largely concentrated here. Most of the larger banks have a merchant banking subsidiary in London—there are a total of 22—and a number of regional banks are affiliated with the more important consortia banks—Western American (Security Pacific, Wells Fargo and National Bank Detroit), Atlantic International Bank (Manufacturers National Bank of Detroit), London Multinational Bank (Northern Trust Co., Chemical Bank), London Interstate (Maryland National, Indiana National, First National Atlanta, Mercentile Trust), Brown Bros. Harriman and International Banks Ltd. (Brown Bros. Harriman and Pittsburgh National), Rothschild Intercontinental (Seattle—First National).

Although merchant banks constitute their principal activity, U.S. banks are engaged in a wide range of other activities in England through investment banks, securities and commodities brokers, leasing, factoring, trust, real estate, and financial services companies, etc. As in other countries, there is some involvement in commercial enterprises which would be illegal in the United States. In England, most of the activity is conducted by one bank—Bankers Trust Company—which at year-end 1973 had 24 investments in nonfinancial companies including manufacturers of textiles, steel, boats, paint, musical instruments, electric equipment and companies engaged in construction, shipping and providing leisure and entertainment services. The average amount of the bank's investment in these companies was 23%.

Australia and New Zealand

Since foreign involvement in commercial banking is prohibited in Australia, U.S. Banks do not have branches or commercial banking subsidiaries. The more important of the companies which they own are engaged in merchant banking, finance, leasing and real estate. There is also a substantial number of minority investments in nonbanking companies engaged in mining, manufacturing and agriculture. Many of the larger American banks had established or acquired interests in companies in Australia by 1973 and it was an important area for investment in 1971 as well. But a number of the holdings listed are owned by King Ranch, a U.S. bank holding company which owns the Kleberg First National Bank of Kingsville, Texas. This unusual bank holding company has holdings also in Argentina, Venezeula, Brazil, Morocco and Spain.

Canada

Canada is another country which excludes nonnationals from participation in the domestic banking system. Thus U.S. banks are engaged in a wide range of financial activities other than commercial banking. There are a larger number of American banks with investments in Canada than in any country, and they exhibit a wider range by size and location of the home office as well. Bank holding companies have acquired interests in a number of commercial firms in Canada—and in Mexico as well—and the threat of erosion of the separation of banking and commerce within the U.S. economy is very

real since these two economies are so closely related to the American economy.

As an example of the problem the bank holding company which owns the Jefferson Trust and Savings Bank of Peoria, Illinois also wholly owns Waterloo Metal Stampings Ltd., a Canadian company, owns a manufacturing subsidiary in Juarez, Mexico and has a 50% interest in a manufacturing company in England. It is possible that the products of these companies are not sold in the United States and that financing their importation or making loans to companies to build up inventories in these products or to consumers to purchase them are not within the realm of probability and therefore present no problems with respect to conflict of interest. But, clearly, if such a trend were to continue—if bank holding companies continue to invest in manufacturing, mining and other commercial enterprises—such conflicts of interest will arise and in effect repeal those statutes which it was actually the intent of the 1970 Bank Holding Company Act amendments to reaffirm.

Continental Europe

The largest number of investments by U.S. banks in Continental Europe are in France. The principal focus is on merchant and investment banking, and Paris is the center for these activities for several regional banks. Real estate companies are another significant area of investment with other investments in a wide range of financial activities.

Luxembourg is a center for Eurobond activity and affiliates which U.S. banks have established there reflect this activity. There are a large number of merchant and investment banks as well as bond clearing associations, holding companies and other finance companies. A substantial number of the larger American banks have investments in Luxembourg because it is an important international financial center and because their activities there are virtually unregulated. Most of their commercial banking activity is done through branches rather than subsidiaries. Belgium is also an important international financial center in which a substantial number of the 20 largest U.S. banks have established or invested in nonbanking financial companies including securities and commodities, insurance and real estate leasing companies. In Switzerland, by contrast, the formation of branches has been discouraged as has participation in domestic securities activity and, as a result, U.S. banks have established a number of commercial banking subsidiaries. They are, however, active in managing off-shore, mutual funds and in other financial and nonfinancial activities such as factoring, leasing and managerial services.

The principal investments of U.S. banks in Germany are in commercial and merchant banks but there are also some important holdings in manufacturing firms held as in Canada through the banks' holding companies. Recently the three largest U.S. banks—Bank of America, First National City Bank and Chase Manhattan Bank—have established retail finance companies and introduced consumer installment financing to the German economy. While German authorities did not intervene or openly discourage the innovations, it is clear that they have been less than enthusiastic and perhaps apprehensive about the nature of changes which will occur in credit markets as a result. Only the largest U.S. banks are active in Spain and Italy. They are engaged in some commercial banking but most of their investments

are in finance companies of various types with a fair amount of real estate activity in Italy. In the Netherlands, U.S. banks' subsidiaries and affiliates are largely engaged in financial activities while in Ireland they hold investments in merchant banks and in commercial companies.

Latin America

The dominant position among foreign banks held by a few of the larger U.S. banks in a number of Latin American countries reflects the fact that three banks—Chase Manhattan Bank, First National City Bank and the First National Bank of Boston—have been active in Latin America for several decades. They have substantial branch networks as well as subsidiaries and affiliates engaged in a wide range of financial and nonfinancial activities. In a few countries—Colombia, Venezuela, Costa Rica and Equador—a number of other banks are also active and, again, there is a wide range of activities. Investment banks seem the dominant institutional form but not enough information is available to describe the business of these banks.

Clearly, U.S. banks play an important role in the economies of countries such as Brazil and Argentina where they have both numerous branches and subsidiaries and in the economies of other Latin American countries as well. They have introduced U.S. banking techniques—credit cards, for example—and provide a wider and more sophisticated level of financial services than might otherwise be available. However, considerations of either benefits or injuries accruing to other economies through the activities of U.S. banks overseas are beyond the scope of this study. The principal concern is the impact of these activities on the U.S. economy and banking system. The pattern of investment in Panama and Mexico are therefore of greater concern here—Panama because it is an unregulated banking market and tax haven and the concentration of merchant and investment banks and finance companies reflect activities similar to those in other centers such as London, Luxembourg and Hong Kong; Mexico because, like Canada and Australia, it is a major area for U.S. bank investment and one in which local authorities prohibit commercial banking activity. Very little of the activity of U.S. banks in Mexico is of a financial nature other than lease financing. Most of the companies in which they have holdings are engaged in manufacturing services and consulting and real estate.

The Caribbean

Investments by U.S. banks in companies in the Bahamas and Cayman Islands reflect patterns of activity like those of the "shell" branches there. The merchant and investment banks, nominee and holding companies are adjuncts to the banks' Eurodollar business. As is the case with the branches, there is wider participation by smaller, regional banks here reflecting lower costs as well as tax advantages. It is possible that the merchant banking activity in Jamaica indicates that it may also serve as an adjunct to the Eurocurrency market but more conclusive evidence is not available.

Banks which are active in Puerto Rico are engaged in activities which might be appropriate to bank holding companies in the United States. Activity by U.S. banks in Puerto Rico does not involve commercial banking. Banks from the states were discouraged from forming branches by Puerto Rican authorities because of what was termed

"over banking" in the area. Their subsidiaries and affiliates are engaged in personal credit, finance, mortgage finance, real estate, etc.

Asia

Thailand, the Philippines, Indonesia and Malaysia are the less developed countries in Asia in which U.S. banks have substantial investments. Most of the investments have been made by the larger banks. Their primary holdings are in investment finance companies with a number of small holdings in nonfinancial companies. There is notably very little investment by U.S. banks in India but substantial investments in companies in Hong Kong and Singapore, which are centers of the Asia dollar market. As in London, Luxembourg, Panama and the Bahamas, there are merchant and investment banks, leasing companies and other financial operations which reflect the principal activities in international financial markets. As might be expected, more banks from the West Coast are represented here than in London or Luxembourg.

There are fewer subsidiaries and affiliates of U.S. banks in Japan than there are U.S. bank branches and relatively few banks are represented. As the joint investments of Chase Manhattan with Mitsubishi Bank and First National City with Fuji Bank indicate, a close relationship with a Japanese bank may facilitate entry. The activities of the companies in which U.S. banks hold investments are not directly involved with banking. Leasing is the dominant activity.

The Mid-East and Africa

U.S. banks have significant activities in only a few countries in these areas. They have a number of investments in financial companies in Lebanon, some investments in banks in Turkey, Morocco and Iran and in agricultural companies in Iran as well. The large number of investments in Israel are largely those of a single bank—First Pennsylvania Bank and Trust Company—in a wide range of banking, investment and finance companies.

In Africa, U.S. banks are most active in Liberia where they have both branches and subsidiaries and affiliates. While their branches do commercial banking, the companies in which they have invested are engaged in general and specialized (transportation) finance. U.S. banks also have branches in Nigeria but only Bank of America has an important investment there, in a commercial bank. The large banks have had minority investments in companies in the Ivory Coast for some time but there has been little growth in activity.

Interest in Zaire, on the other hand, is relatively new. U.S. banks have no branches there but have made substantial loans within the country and have investments in companies engaged in commercial, development and investment banking. Meanwhile, there has been relatively little growth in investments in South Africa. The companies in which First National City Bank has interests have been in operation for more than a decade.

The United States

The listing under the United States is of subsidiaries and affiliates which, for the most part, are engaged only in international activities. A number of these were organized in Delaware during the period in which the Voluntary Foreign Credit Restraint Program was in effect as a means of offsetting the effects of the program on banks' international business without undermining the intended restraint on dollar outflows. Funds loaned overseas by these corporations were

excluded from VFCR guidelines if matching funds were obtained by the corporations from overseas sources. Other companies on the list reflect the growing involvement of bank holding companies in international activities and PEFCO reflects policies to encourage U.S. exports.

SUMMARY AND RECOMMENDATIONS

The analysis of U.S. banks overseas investments indicates that they do not necessarily use this avenue of activity as a means of entering into retail banking operations in the domestic markets of individual countries. The bulk of the activity of foreign subsidiaries and affiliates involves wholesale banking and is conducted with a latitude which is not permissable for U.S. banks in domestic operations or through their foreign branches. The largest banks are able to mingle commercial and investment banking activities overseas to a degree which, given the increased interrelationship between domestic and international markets, threatens to erode U.S. restrictions in this area. It is possible that this latitude gives the large banks substantial competitive advantages over smaller banks in dealing with multinational companies.

Meanwhile, foreign branches are the preferred form of foreign activity and while they are restricted to activities permissible to the parent bank in the United States, their operations are substantially more profitable than that of banking and finance subsidiaries overseas. A policy which would gradually impose on subsidiaries and affiliates restrictions governing the range of activities which apply to the foreign branches would not be unreasonable or overly onerous. Support for this recommendation is offered by Richard M. Cummings, Executive Vice President, National Bank of Detroit:

> A U.S. bank's branch in a foreign country is limited in its operating activities to the banking laws of both the United States and the branch's host country. Wherever there is direct overlap, the most restrictive, of course, governs. Though style varies somewhat worldwide, the basic practice of international commercial banking is sufficiently common to accommodate traditional U.S. bank overseas expansion via direct branches or, where branching is not permitted, through controlled banking subsidiaries. Since financial interdependence requires there be no ambiguity with regard to parental responsibility for overseas banking activities, whether branch or subsidiary, similarity of regulation is essential.
>
> The desire of U.S. banks to enter domestically and internationally into various financial activities heretofore non-traditional by U.S. banking standards, is well recognized. And the "need" to compete fully across the board with indigenous banks in foreign countries is a convenient but not persuasive argument. It seems to me that the extent to which non-bank activities are permitted, whether in the U.S. or abroad, depends not merely upon a bank's capital, experience and management, but more importantly on effective and realistic "severability"—i.e., the extent to which non-bank operations would be permitted to encounter problems without serious consequence to the principal bank. In my opinion, mere geographic, physical, or corporate separation does not insure severability.
>
> It is my view that restriction of international activities of U.S. banks, both branch and banking subsidiary, to those generally permissible domestically would not create any unusual or significant disadvantages to institutions in servicing their customer requirements.[21]

The structure of overseas investment reflects successful efforts on the part of banks to evade statutory restrictions on the amount of investment overseas in relation to capital. Investments by foreign subsidiaries in additional subsidiaries made it possible to expand

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[21] Response to questions submitted by Congressman Fernand J. St Germain following Mr. Cummings' appearance before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance, December 5, 1975.

the number of foreign companies within the parent bank network beyond the amount permissable through direct investments of the bank and its Edge corporations. The 1970 amendments to the Bank Holding Company Act created a statutory loophole which has allowed holding companies to invest in the same range of activities permitted Edge Act corporations but without restrictions on the amount invested in relation to capital.

Between 1971 and 1973, new foreign investment occurred largely through holding companies and banks as opposed to Edge corporations. In 1974, questions of capital adequacy arose in a number of cases involving applications for new investment overseas. Obviously, the amount of investment in relation to capital is a major consideration and efforts to frustrate statutory restrictions on the level of investment by banks and Edge corporations should be discouraged by the regulatory authorities. Moreover, Congress should consider adding a restriction on the amount of investment by bank holding companies in overseas companies in relation to capital.

In addition, it would seem reasonable to suggest that regulatory policy be developed which would discourage investments by foreign subsidiaries which place important companies at a distance from the parent bank in terms of financial responsibility and managerial involvement. Certainly, indirect investment which involves a chain of ownership across national boundaries should be discouraged. U.S. banks and U.S. regulators which supervise those banks must assume responsibility for assuring that subsidiaries are managed so that they do not endanger parent bank capital. This may require more direct involvement by the parent bank in the affairs of foreign companies which it controls.

Finally, there is a need to limit or prohibit—or at least clarify—transactions between domestic banks and holding companies and foreign subsidiaries. The Federal Reserve Board has recognized the problem in its recent statement of policy on joint ventures by U.S. banking organizations. In approving an application for investment in a joint venture the Board will take into account the possibility that the venture might need additional financial support and that the additional support might be significantly larger than the original equity investment in the joint venture.[22]

The Board's position appears to be the variance with that of the Bank of England which has required parent banks to promise support in excess of their capital commitment. Such promises should, in fact, be strictly limited if not disallowed. The establishment of separate corporate entities by foreign banks in a given country should entail some limits on the liability of the parent and some responsibility on the part of the banking authority of the country in which the subsidiary or affiliate has been established for assessing its soundness and dealing with the consequences of its failure. An unqualified open door policy with respect to international banking puts an undue burden of responsibility on the regulatory authority of the country in which the parent bank is located. Unless the country in which a foreign banking institution is being established is one in which the impact on the economy is so small that its failure would have no national economic effect, it seems both reasonable and necessary that responsibility be shared.

[22] Federal Reserve Board Press Release, February 12, 1976.

CHAPTER 4

Foreign Banking Laws and Regulations Governing Overseas Operations of U.S. Banks*

Appendix B summarizes the banking laws of foreign countries as they relate to the overseas operations of U.S. banks. It is followed by additional information on the laws of selected countries provided by the Congressional Research Service.

This compilation does not include information on socialist countries where U.S. bank activity has been limited and where there is no available body of law pertaining to U.S. bank entry and operations. The overwhelming majority of the countries that are included in the chart allow some form of U.S. bank entry. Only Mexico and Sweden prohibit foreign bank participation in all financial institutions.

Seven other countries no longer allow foreign bank entry but allow banks which are already active in the countries to continue to operate on a limited basis. Chile, Peru and Columbia, as members of the Andean Common Market, comply with the Cartagena Agreement which precludes entries of additional foreign banks but allows new branches and affiliates of those already operating in these countries. The agreement also provides that a majority interest in all banks be controlled by nationals as of June 30, 1978. The most restrictive among these countries is Chile where all foreign banks were purchased by the government between 1971 and 1973. The government presently allows foreign banks to maintain representative offices with no authority to accept deposits or make loans. Peru also prohibits entry but allows foreign bank participations of up to 20% in affiliates which existed prior to nationalization. However, access to the savings market and services by banks with foreign affiliation is restricted.

Venezuela is another Latin American country which prohibits foreign entry into the banking system but it makes an exception for banks from other Latin American countries. It does permit foreign banks to establish agencies and non-banking operations. Existing foreign banks cannot open new offices or increase the size of their activities. They are further restricted in bond issues, foreign exchange operations, and access to savings deposits. Other developing countries which have curtailed foreign bank entry are Malaysia and the United Arab Emirates. Malaysia is granting no new licenses. The United Arab Emirates have frozen new bank entry for a two-year period.

Two countries with close ties to the United States allow entry by United States banks in financial institutions other than commercial banking. In Australia, foreign banks may engage in insurance and merchant banking business if they can demonstrate a benefit to the Australian economy. Canada allows foreign banks to own financial institutions which accept deposits but they may not call themselves banks. One hundred eighty foreign banking entities hold $1.8 billion

*Robert L. Wills assisted in compiling the data for this study and wrote Chapter 4 summarizing foreign banking laws and regulations governing overseas operations of U.S. banks.

in deposits in Canada. Foreigners are permitted to hold minority interests in Canadian banks if ownership is limited to 10% by an individual banking group and 25% by all foreign banks. Canadian banks are allowed to accept deposits of U.S. residents although the lending of these funds is restricted. U.S. deposits have varied between 11% and 46% of total deposits in Canadian banks.

Eleven other countries allow U.S. banks entry but impose substantial restrictions on their activities. Columbia, Egypt, Costa Rica and Spain restrict foreign banks to minority participation in commercial banking. Argentina, Hong Kong and Singapore restrict operations to a particular market. Banks operating in Argentina must stay in Buenos Aires. Since 1965, foreign bank entry to Hong Kong has been restricted to the export market. Similarly entry to the domestic market in Singapore is restricted but entry to the Asian Currency market through that country is encouraged. Brazil, Greece, Japan and Taiwan impose restrictions which discourage but do not prevent full entry. Brazil requires directors to be Brazilian and restricts branching within the country. Greece requires the importation of $10 million of capital for each new branch. In Japan, new offices are not prohibited but are virtually impossible to obtain. The Republic of China limits banks to a single office.

The thirty-two other countries covered by the Congressional Research Service study are open to entry by U.S. banks but the organizational forms allowed for banks varies widely. Twenty-three countries allow any form of organization. Seventeen countries require that the banks be locally organized corporations. Of these, five countries, described above, allow only affiliate ownership. In contrast, the Cameroons requires that foreign participation account for over one-half of registered capital for the foreign owned company. Japan and Nicaragua allow foreign entry only in the form of branches. Other countries allow some combination of branches, agencies, and representative offices which limits the responsibility of the central bank for insuring deposits.

Once they are domiciled, treatment of foreign banks is generally equitable. Thirty-nine countries have no discriminatory treatment with regard to access to financial services, interest rates, lending, or reserve requirements.

Thirty-one countries have no discriminatory restrictions on branching, accepting deposits, or exchange operations. Full involvement in trust activities is allowed in thirty-two countries and limited participation in this market is allowed in another seven countries. Underwriting by foreign banks is unrestricted in twenty-eight countries and allowed to a limited extent in eight more.

In most cases restrictions on foreign bank activities are designed to insure a positive impact on the nation's economy. Some countries, i.e., the Bahamas, the Cayman Islands, Jamaica and several other developing countries, are attempting to benefit from the absence of restrictions and a high volume of international activity. Other countries, notably Greece and the Cameroons, attempt to offset loss of ownership by insuring an inflow of capital. In Greece it is noted that 10% of commercial banking activity is controlled by ten foreign banks. Countries with markets which are closely tied to the United States have taken measures to limit or control operations of U.S. banks. In

Asia, U.S. bank activity is restricted in major centers of U.S. investment such as Hong Kong, Singapore, Japan, and Taiwan. Latin American countries are the most restrictive. Brazil requires bank directors to be residents and restricts profit remittances.

Foreign banks are examined by local authorities in all countries. But supervision from the standpoint of examinations is virtually nonexistent or far inferior to that in the United States as the Comptroller's Office noted in its response to the FINE Questionnaire. The Bank of England does not examine domestic or foreign banks but requires that monthly financial statements be submitted and that foreign banks be in a position to report capital structure and assets if they are requested to do so.

CHAPTER 5

Supervision and Regulation

In the description of the extraordinary growth of international activities of U.S. banks, it was noted that overseas expansion was applauded and facilitated by regulatory authorities. The following colloquy between James J. Saxon and Senator Jacob Javits in February 1962 is one of several examples that could be provided as illustration: [1]

Senator Javits. Could you let us know whether you have any views or ideas about the way in which the banking structure of the country could help in our struggle in the world today?

I have heard it said, for example, that our banks are not as oriented to lending for purposes of development abroad and encouraging our American companies to move out abroad in the fields of either production or technical assistance or exports as they might be; that this interest is confined to some of the great institutions in the major centers; and that as far as the rest of the country is concerned it is practically dormant through lack of education, lack of orientation, and lack of interest.

Mr. Saxon. I believe we need more education and more purposeful efforts by the authorities on a sound, sane basis to amplify the participation of the American banking system abroad, particularly in the light of the enormous expansion of the Common Market.

I foresee the day, perhaps not 15 years from now ,when the resources of the large banks of the country now operating in the foreign area will be doubled on account of such operations.

In other words, what I am trying to say is that banking resources committed abroad will be very substantial in relation to total resources.

It is a peculiar reflection on our unique banking system in this country that we have today only five banks which are major participants in the world finance—the Morgan Guaranty Bank, the Chase Manhattan Bank, the First National City Bank of New York, Bank of America, and the First National Bank of Boston.

But this about covers the entire reach, and it is a very surprising reflection, I think, on the extent of U.S. participation in this growing area, that this richest and greatest of all countries should even at this stage have such a limited participation.

I think this participation inevitably must grow substantially, and one of the purposes of this inquiry is to see if by changes in law and changes in administrative procedure and policies the activity of more banks in this area can be properly expanded."

Senator Javits. Is it the clear implication of your view then that you will, as far as you can within the ambit of your authority, seek to forward that concept—greater participation by the American banking system and a moving outward of our Nation's economy throughout the world?

Mr. Saxon. Yes, sir.[2]

As this exchange indicates, international operations of U.S. banks were viewed by some as, in effect, instrumentalities for implementing U.S. international policy objectives. Whatever the merits of utilizing the banking system in achieving these objectives, it is clear that a specific program for facilitating the expansion of U.S. banks' overseas operations was undertaken and that it was successful.

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[1] Studies and papers by Federal Reserve Board staff in the 1960's and early 1970's also take what former Federal Deposit Insurance Corporation Chairman Frank Wille has termed a "cheerleader" tone. (Address to an ABA-FDIC seminar in Kansas City, Mo., reported in *The American Banker*, November 26, 1975.)

[2] Nomination of James J. Saxon to be Comptroller of the Currency. Hearing before the Committee on Banking and Currency, United States Senate, 87th Congress, 2nd Session, February 6, 1962, pp. 19–20.

Comptroller Saxon proposed two important changes in laws governing international activities, both of which were enacted.

(1) The first, enacted in August 1962, liberalized Federal Reserve Board regulations which permitted branches to engage only in those activities which were permissible for the U.S. parent. Branches were authorized to engage in the activities usual for banks in the country in which the branch was located (including, for instance, insurance) but not in commercial activities (producing, buying, selling goods, etc.) or securities transactions.

(2) The other, enacted in 1966, authorized U.S. banks to establish banking subsidiaries overseas or to acquire directly shares in foreign banks. Before this latter amendment, banks could only establish or acquire overseas affiliates through Edge Corporations and could invest in individual companies an amount equal to only 10 percent of the Edge's capital, or 15% if the company were a bank. Further, only 10% of the bank's capital could be invested in the Edge Corporation. The 1966 amendment allowed the bank to invest directly in foreign banks. This greatly expanded the potential for foreign investment and permitted larger investments in individual institutions. The result was that it became possible for the largest U.S. banks to own foreign banking institutions of very substantial size.

Regulation and supervision of overseas activities are largely the responsibility fo the Federal Reserve Board. Section 25 of the Federal Reserve Act gives the Board authority to approve and regulate overseas branches of member banks and Agreement Corporations; Section 25(a) gives it jurisdiction over Edge Corporations and under the Bank Holding Company Act it also has exclusive jurisdiction over foreign activities conducted by bank holding companies. The Comptroller of the Currency is authorized to examine the foreign branches of national banks and has an office in London which, in effect, serves as a regional office for overseas operations. The Comptroller also makes recommendations to the Board concerning applications by national banks to establish foreign branches. The Board examines foreign branches of state member banks and New York state examiners have also participated to some degree in examining foreign branches of the very large state chartered banks located there.

Although they participate in the examining process, neither the Comptroller nor State authorities have power to veto approval given by the Federal Reserve Board for branches and subsidiaries of either national or state member banks and cannot serve as alternative licensing agencies in approving foreign activities. The Federal Reserve Board has jurisdiction, however, only over member banks. Until recently, this presented no problems because most banks large enough to establish foreign branches and subsidiaries were member banks. But recent approvals of foreign branches by state authorities prompted the FDIC to request legislation giving it authority to approve, regulate and supervise foreign branches of state non-member banks.[3]

The Board's criteria for approval of foreign branches and a description of some of the developments in the regulatory structure which it

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[3] The establishment of foreign subsidiaries and affiliates remains the exclusive jurisdiction of the Federal Reserve Board under Section 25 and 25(a) of the Federal Reserve Act and the Bank Holding Company Act Amendments of 1970. No state laws currently authorize state non-member banks to establish foreign subsidiaries and affiliates.

has devised are contained in the following response by Federal Reserve Board Chairman Arthur Burns to questions raised by Congress man Wright Patman in February 1973:

The Congress in enacting the Federal Reserve Act in 1913 authorized the establishment of foreign branches by national banks, subject to the approval of the Board and such rules and regulations as the Board might prescribe, on the grounds that such foreign branches would contribute to the furtherance of the foreign commerce of the United States. The Board in carrying out its responsibilities under the statute has sought to foster a strong branch banking system overseas which would afford U.S. commercial and investment interests from all sections of the country access to adequate and alternative sources of financing and financial services for their international transactions. The criteria employed by the Board in approving the establishment of foreign branches have been mainly concerned with the condition of the bank and its ability to operate and manage a foreign branch. A bank's condition is reviewed with respect to the adequacy of its capital, the quality of its assets and the general reputation and capabilities of its management; in addition, for banks seeking to establish their initial foreign branch or other foreign operation, the bank's experience and expertise in international lending and financing are scrutinized. Only rarely have other policy considerations been taken into account in acting on an application to establish a foreign branch.

In the past decade, only four applications for overseas branches have been denied by the Board. Only one of these, the application by the Bank of the Commonwealth, Detroit, Michigan, for a branch in Nassau was denied on the grounds of an unsatisfactory condition of the bank. In some other instances, however, approval has been withheld pending corrective action by bank management with respect to capital, quality of assets, operational procedures or personnel requirements.

Another application for a limited service branch facility in Paris by the Union Bank, Los Angeles, California, was denied since the bank already has a "shell" branch in Nassau. The disposition of this application is related to the question of Nassau branches which is discussed below.

Two applications for branches in Puerto Rico were denied in this period. The Secretary of the Treasury of the Commonwealth of Puerto Rico objected to the establishment of these branches by a bank headquartered outside Puerto Rico on the grounds that the banking needs of the Commonwealth could be adequately served by the banking institutions already operating in Puerto Rico. The Board acceded to the wishes of the Puerto Rican authorities in these instances. These two cases are the only ones where it might be said that local conditions of competition and concentration of banking facilities indirectly influenced the Board's decision. Normally these considerations do not enter as elements in the Board's actions on foreign branch applications: foreign banking authorities are the ultimate licensing agency for the entry of alien banks into their market and those authorities are in the best position to judge banking requirements in those markets; from the U.S. point of view, the public interest of furthering the foreign commerce of the United States is best served by permitting competitive alternatives among U.S. banks abroad, rather than confining branch facilities to the few very large U.S. banks who have long had foreign branches.[4]

Section 25 of the Federal Reserve Act gives the Board very broad powers in regulating foreign branches. These powers are subject to no Congressional guidelines other than that the branches shall further the foreign commerce of the United States, and no specific restrictions or limitations on branch activities are expressed in the law. As discussed elsewhere, Section 25(a) which deals with Edge Act Corporations is far more restrictive and specific in its limitations. As a result of these restrictions, Edge Act Corporations have not been used as extensively as branches to conduct internationl banking operations. They are used principally as vehicles for overseas investments.

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[4] *Economic Report of the President,* Hearings before the Joint Economic Committee, February 20, 1973. This earlier response from the Board has been used instead of the response to the FINE Questionnaire (which is published elsewhere) because it provides more detailed information on this subject.

In regulating the foreign branches, the Federal Reserve Board has limited its responsibility almost exclusively to the relationship between the branch and the home office, reflecting the concern with balance of payments problems. Domestic regulations governing interest rates and reserve requirements do not apply although reserve requirements are imposed on foreign branches when they extend credit to U.S. residents. The reasons for this attitude are fairly obvious. The branches are located outside the United States and the Board is reluctant to intrude on the sovereignty of other countries or to impose restrictions which would put the branches at a disadvantage with banks in the host country. In many countries, branches are subject to the same regulations which govern the operations of local banks, including reserve requirements or liquidity ratios. Whether these requirements are more restrictive or less restrictive than U.S. regulations, they ensure competitive equality in a given banking market.

But, in some countries U.S. banks' foreign branches are sealed off from local banking operations, restricted to an international business and therefore exempt from reserve requirements, liquidity ratios or other regulatory restraints. As discussed elsewhere, approximately 75% of foreign branch activities of U.S. banks is conducted in these international financial centers. Thus, the absence of regulatory restraints for branches would appear to be the norm. But banking subsidiaries and affiliates of U.S. banks presumably are regulated by foreign central banks because they are part of the banking system of the country in which they are located despite foreign ownership. On the other hand, no one regulates or supervises the extraordinary number of non-banking subsidiaries and affiliates which U.S. banks have acquired overseas.

Whether or not considerations of competitive equality justify the Board's abdication of regulatory responsibility over the operations of branches requires some scrutiny. There are substantial differences in the type of activity undertaken by branches as contrasted with domestic offices, some of which appear to indicate potential problems.[5] The Board has taken the position that it is the responsibility of the parent bank to regulate overseas activities where foreign central banks are not specifically involved. The regulatory framework which the Board has provided—Regulations K and M—limit the range of activities of branches as described above and impose reserve requirements only on loans (not liabilities) to U.S. residents.

In its role as the supervisor of international activities of state member banks the Federal Reserve System focuses on whether or not a bank's senior management is exercising the proper control over foreign activities. This was demonstrated recently in a Federal Reserve staff survey of foreign exchange operations which recommended that internal audit and control systems be improved and made more uniform. The Comptroller's office has also recommended uniform requirements for foreign exchange accounting. But the Board's view is that expertise among banks differs and that explicit regulation of activities such as foreign exchange and bond trading should be avoided since it may be too restrictive for some banks and too permissive for others.

[5] Most of these problems—excessive reliance on the interbank market for funds, heavy concentrations of loans to individual countries and industries, risks in foreign exchange operations, high proportions of term loans, etc.—are discussed elsewhere.

Internal audit and control systems are, of course, a critical factor in good management; outside regulation and supervision are no substitute for them. But the lack or insufficiency of internal controls in international activities have led banking regulators to focus on the importance of self-regulation at the expense of an adequate appraisal of their own regulatory role in this area.

In response to the FINE Questionnaire, the Comptroller cites the inadequacy of oversight by banks' senior management before 1974 but notes an improvement since that time. He also makes the point that while the Comptroller's Office is the primary supervisor of international activities—i.e., national banks have more overseas offices—it is not the primary regulator of these activities. The Comptroller's response states that the "most serious problem" affecting the supervision of international activities is, in fact, a regulatory problem relating to the application of lending and borrowing limitations.

As supervisor of national banks, the Comptroller's Office requires that domestic offices and foreign branches of banks be combined for purposes of computing statutory limits on loans to one borrower. But the Federal Reserve Board sets separate lending limits for Edge Act Corporations, all of which are under its regulations, and proscribes no limits on loans to one borrower for subsidiaries of Edge Corporations. The Comptroller states that his office intends to review this area to determine if additional regulations are possible and necessary for subsidiaries of national banks.

Efforts have also been made to improve the examining process. The Comptroller has centralized examination of international activities in the Washington office in order to coordinate home office and foreign branch examinations. The Federal Reserve has not centralized exams although there is recognition by staff members of the need for specialized expertise in examinations of international activities. The Comptroller's Office has also established a central committee to evaluate loans to individual countries. It also aggregates information on large domestic and foreign loans in order to standardize evaluations since banks in a number of regions may participate in syndicated loans to a single borrower. Other regulators have not as yet established similar procedures.

Both the Federal Reserve Board and Comptroller rely heavily on examinations in supervising international operations, but the quality of examinations cannot be evaluated. Moreover, whether supervision and regulation are adequate cannot be determined in the absence of adequate disclosure. Discussions in other sections of this study have pointed out that there is a lack of detailed information on international activities, particularly in areas such as foreign exchange. Regulatory authorities have not aggregated and distributed information on such important data as the country of residence of depositors or borrowers and the maturity and type of security behind loans.[6] The survey conducted by the Federal Reserve Board for the Senate Subcommittee on Multinational Corporations is the first effort in this area.[7]

Regulators also have not required foreign branches and subsidiaries to reveal the business of borrowers although they require very detailed information on domestic commercial and industrial loans from large

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[6] Presumably bank examiners do have access to this information for individual banks but not for aggregates of banks.

[7] See "Twelve Multinational Banks" and "Some Special Problems—Term Lending."

weekly reporting banks in the United States. The fact that over one-eighth of Morgan Guaranty Trust Co's. international loans were loans to two industries—petroleum and shipping—became known as a result of its filing with the Securities and Exchange Commission in connection with its February 1976 stock offering.

This degree of disclosure is necessary so that the "exposure" of foreign branches and subsidiaries can be determined. Without adequate disclosure, the economic utility of foreign lending cannot be evaluated. Moreover, it is probable that lack of disclosure encourages inadequate managerial control. Inadequate data also precludes the development of monitoring systems by regulatory authorities which would reveal the development of questionable banking practices before they reach the point where a turn-around is impossible.

CONCLUSION

This study reflects acceptance of the widely held view that foreign branches should be seen as an integral part of the parent bank. But it is clear that in some respects this view is inappropriate. The differences between branch operations and those of the home office are one factor. Another is that foreign branches are usually funded overseas but that rescue operations by the parent bank using U.S. funds must take into account interest-rate differentials, reserve requirements, exchange controls, etc. Thus, to assert that a heavy concentration of loans by branches to a given country or industry, or concentration of term loans, does not really represent a concentration at all in the context of the total parent network is not a prudent position. The branches of U.S. banks in each country should be regarded for purposes of regulation both as separate banks, reasonably capable of independent survival, and as part of the overall parent network, both foreign and domestic.

A number of regulatory issues have been raised in other sections of this study and suggestions have been made which are addressed to particular activities and problems such as exposure to the activities of foreign affiliates, foreign exchange transactions, term lending interbank transactions, etc. In general, however, there is need for improvement in the regulation of foreign branches and subsidiaries of U.S. banks by U.S. authorities. Closer, more complete regulation is required not only because of questions relating to the soundness of individual banks and the banking system, but also because broader economic and policy questions require better surveillance. Given the immense volume of international activity by U.S. banks and the implications of this activity for the U.S. balance of payments, the value of the dollar, U.S. policy with respect to countries whose governments are heavily in debt to U.S. banks, etc., it is necessary that overseas operations be regulated according to the same standards—if not the exact same rules—that apply to domestic operations. Support for this view was expressed by Richard H. Cummings, Executive Vice President of the National Bank of Detroit:

> Since financial interdependence requires there be no ambiguity with regard to parental responsibility for overseas banking activities, whether branch or subsidiary, similarity of regulation is essential.[5]

[5] Letter from Richard H. Cummings to Hon. Fernand J. St Germain, January 29, 1976.

CHAPTER 6

Foreign Exchange

The foreign exchange activities of U.S. banks have grown substantially in recent years not only because of floating exchange rates but also because an increased portion of their loans and deposits were denominated in currencies other than the dollar. Purchases and sales of currencies both for immediate delivery (spot) and delivery at some specified future date (forward) are necessary in order to match balance sheet items. For example, suppose the London branch of a U.S. bank receives a deposit in Deutschemarks which matures in three months. Suppose it has a borrower for Deutschemarks but the borrower only wants the funds for two months and wants only two million of the three million deposited. The bank then has several options. It can make the loan with the expectation that at the end of two months it will be able to find another borrower who wants two million Deutschemarks for a month and then lend the remaining funds to another bank overnight either in London or, if it has a branch in Germany, in the German domestic interbank market, until it finds a longer term or more profitable use for the funds.

But that is the most simple of possible alternatives and not necessarily the most profitable. It also assumes a certain passivity on the part of the branch which is out of character in this market. The low level of external nonbank foreign deposits in Eurodollar banks is both a cause and an effect of the way business is done. External deposits are desirable but cannot be depended upon. Thus, the bank finds it preferable to "manage" liabilities by purchasing them as needed. The bank makes the loan and then acquires the funds. The funds may be available because a depositor with Deutschemarks has appeared. But, more likely, the London branch will solicit a Deutschemark deposit from another bank, either within its own network—possibly from its parent's Frankfurt branch which will borrow the funds from local German banks—or from another, nonrelated bank—the London branch of another American bank or of a German, Italian or French bank that has a London office.

Before it does this, however, it will check the rates in the exchange markets to determine whether or not it will pay more for the funds it needs by borrowing them through the several available channels provided by the interbank market or by exchanging a dollar deposit (which it already has, which has been offered or which can be acquired in the same types of interbank transactions) for Deutschemarks. If that offers a cheaper solution (and it frequently does) then the London branch will contract to buy two million Deutschemarks for dollars for delivery on the day the loan is drawn down and contract to sell two million Deutschemarks for dollars on the day the loan is repaid.

When a bank makes such an arrangement it is taking more risk than it would take if it were only accepting deposits and making loans in dollars. But it is not speculating. If the contracts are matched

in terms of maturity with the loan, the bank knows that it is protected from any shift in exchange rates. It has already agreed to buy and sell a given number of Deutschemarks for a given number of dollars and to pay specified fees on the transactions. If the number of Deutschemarks offered for dollars—the spot rate—is more or less than the contract specifies on the day of delivery, the risk or profit will be borne by the party who is selling the funds to or buying them from the London branch—unless, of course, the other party is similarly protected by forward contracts.

Somewhere in the chain, however, someone is speculating or, to redress the pejorative implication, is "making a market" in the currencies traded and stands to make a profit or take a loss because, since the advent of floating rates, currencies do shift in value in relation to one another over relatively short periods of time. Most of the institutions which are making a market in currencies are banks and, for the most part, they are the largest banks. They have undertaken this role because they have a sufficient volume of business for customers and for their own account—the kind of transactions described above—so that they are "in" the market. Aware of the rates on a minute to minute basis all over the world by means of some of the most sophisticated technology in banking, the larger banks are in a position to buy currencies they don't need when they recognize that the rate offered by one party is low and that a higher bid is being made elsewhere in the market by another party. But, as in any market, success is not guaranteed. The buyer in the example above may have found another seller in the meantime and the next buyer may offer less.

The above applies to the less complex aspect of the market, the day-to-day transactions which require judgments on immediate conditions. With capable personnel, a good recording system and adequate oversight and auditing procedures, such activities need hold few terrors. But there are factors which can cause problems for even the most careful banks. Some of these risks apply equally to banks which make a market in foreign exchange and those which do not—banks entering the market only to meet their needs but subject to risks inherent in the nature of conducting the business of banking in multiple currencies under floating exchange rates.

Any bank making a loan is taking a risk. If the lender does not repay the loan at the specified time, the bank must find other funds to meet liabilities due at that time. Frequently, this can only be done at rates which are less favorable to the bank. In the Eurodollar market where loan rates vary over the life of the loan and are tied to the cost of funds, there is some protection. This system was designed to cope with the fact that most loans are longer term than the short-term liabilities which support them. Nevertheless, if, as in our example above, a loan made in Deutschemarks is not repaid on a specified date and the bank must not only find other funds to meet its balance sheet liabilities but must also find the funds it contracted to pay when it made its contracts to exchange dollar deposits into the Deutschemark loan, there is additional risk. The bank has agreed to pay a given number of Deutschemarks for dollars on the basis of expectations at the time the contract was made as to the future rate. The prediction is seldom 100% accurate and so the bank which must buy Deutschemarks that day at the rate offered will pay more or fewer dollars for the number of Deutschemarks it needs to settle the contracts, and make an unexpected and fortuitous profit or take a loss.

A word about speculation seems appropriate at this point, although there is a more extensive discussion of this issue in Chapter 10. During 1974 a number of banks were engaged in speculation and some suffered the consequences of heavy losses and—in two cases—ultimate failure. One of the means of speculation involved a deliberate choice to do what is described above. That is, some banks chose to make a contract to sell a currency at a given price at some point in the future, but failed to make an offsetting contract to buy the currency at the same price on the same date. The expectation was that the rates would decline at some point during the interval and the bank would make its offsetting contract at that time. Thus, the bank might remain "exposed" on a three-month futures contract for several weeks and then, having gotten a favorable rate, would make a matching contract, collecting in advance the profit it will make for selling fewer of the Deutschemarks it has just acquired for the same amount of dollars it will receive on the first contract. The unhappy ending to the story, however, occurs when the trader has guessed wrong and the Deutschemark appreciates against the dollar rather than declines. He may continue to put off making his matching contract in the hope that the trend will be reversed. Finally, however, he must buy the currency however unfavorable the rate. As is evident, there is some temptation to maintain an exposed position. The profits for guessing right are ample and the expenditure of effort and cost are seemingly slight.

Banks frequently have occasion to make guesses about such trends as the future direction of interest rates. They do so when they buy securities. Until recently, bankers seemed on safe grounds in tying rates on future contracts on currencies to expectations as to interest rate trends in domestic economies. The expectation was that rising interest rates would cause currencies to appreciate and declining interest rates would precipitate a decline in the exchange value of the currency. Recently, some observers have noted the reverse is true in some currencies—that, for example, the higher the bank rate rose in London, the more sterling declined. One explanation for why exchange rate movements should now deviate from the theoretical model supported in past times by a wealth of empirical evidence is that exchange contracts have become an important medium of investment and that the investor in the future of sterling sees a rise in interest rates in the U.K. as a portend of further economic troubles and a declining balance of trade. In any event, a mechanism which was reasonably accurate in predicting exchange rate movements has become somewhat skewed with the result that it may have become more costly and riskier to deal in these markets. The consensus as to trends in the market is increasingly a less reliable guide and the trader who makes a market has less certainty as to the outside limits of his own risk.

Finally, there is another risk which should be mentioned. Again, this risk applies not only to the large banks which make a market in foreign exchange, but to all banks which have occasion to use the market because they are engaged in an international business. The risk here is illustrated by the failure of the Herstatt bank and is referred to as the "credit" risk.

The classical situation in the credit risk case develops when one party in a contract fails to deliver. If the London branch of a U.S. bank has a contract to buy Deutschemarks, it is usually because they are needed to meet some other form of contractual obligation—a

contract to sell Deutschemarks to a corporate customer or to reimburse a Deutschemark depositor whose funds have been converted into Swiss francs for a loan. If the other party in the contract fails to deliver the Deutschemarks, the London branch must buy them "spot"—that is, at current market rates—and may take a loss. But currencies are usually delivered and received by telephonic transfer and it is possible that the London branch would deliver its dollars without certainty that it had or would receive the counterpart funds.

This is what happened in the Herstatt case. All the U.S. banks were selling Deutschemarks "spot" to the German bank for dollars and had already made delivery without being aware that the bank had in fact been closed. Most participants in the market were aware that the Herstatt bank was engaged in large-scale speculation and no longer would enter into forward contracts with it. But it was generally assumed that a "spot" contract carried little risk. In the aftermath of the Herstatt failure, more cautious arrangements were devised for payment and banks took greater care in evaluating other banks with whom they do business. Meanwhile, settlements were made which were somewhat more generous to foreign banks,than to others among Herstatt's creditors and the U.S. banks were repaid almost 80 cents on the dollar.

But, while the Herstatt case was instructive, it was by no means the major lesson which has emerged as a legacy from the tense summer of 1974. Herstatt's total foreign exchange exposure was a mere $200 million and some of the U.S. banks involved wrote off all or part of the funds without a major threat to their solvency. But, Franklin National Bank's prospectus filed with the SEC at the end of March, 1974 in connection with its proposed acquisition of Talcott Finance Company indicated that it had foreign exchange contracts outstanding the previous December which totalled $3.8 billion—not, in fact, an exceptionally high volume as measured by outstanding contracts at branches of other multinational banks. News accounts indicate that the aggregate volume of contracts rose further in subsequent months and were responsible for the $40 million loss discovered by bank officials at the beginning of May. Given Franklin's high proportion of interbank liabilities—almost $700 million of Federal funds and roughly $1 billion of Euro-dollar placements in its London branch, half of which were deposits of other U.S. banks—the international banking system would have had to absorb losses of between $5.5 and $6 billion if Franklin had closed abruptly. But, to leave the bank open meant a run-off of deposits which eventually totalled $1.7 billion, the amount of funds disbursed to Franklin through the Federal Reserve discount window.

The continuation of Franklin through the summer also helped to unwind its foreign exchange contracts but not without cost to the market. Many of the contracts were unmatched which meant that the bank's traders had to enter into shorter-term matching contracts to

rectify its exposure or else settle maturing contracts with spot purchases. Increasingly, other banks became reluctant to deal with Franklin even though it was being infused and supervised by the full panoply of U.S. bank regulators. Banks with outstanding contracts became ever more nervous, fearing a default by Franklin and calamitous reaction in the market at any moment. The situation was without precedent but, eventually, the Federal Reserve set one. It assumed responsibility for executing Franklin's contracts, requiring a surety deposit from the bank to assure reimbursement for any loss. With that remarkable step—taken before the bank was actually closed in October—the market calmed down. But the aftermath was a reduction in the volume of foreign exchange transactions estimated at between one-quarter to one-third and a decline in the volume of interbank redepositing which became even more marked during the first six months of 1975.

Dr. Arthur Burns remarked that had Franklin been allowed to fail in May instead of October, it would have shaken the financial system, world-wide. Of course that's what it did do. Dr. Burns should be understood to mean that it could have been much worse.

THE ABSENCE OF DATA ON FOREIGN EXCHANGE

Absence of information is a general characteristic of international financial markets. Reports are published by some central banks on gross assets and liabilities of external banking offices and publicized Eurocurrency credits give some indication of where funds are flowing, but there is no publicly available information on foreign exchange markets and no good estimates of its gross size. Participants say it is smaller now than in 1973 and 1974 but these estimates are based on subjective experience and not data which has been collected.

In September 1973 Congress added an amendment to the legislation giving Congressional approval of the devaluation of the dollar which required banks to report foreign exchange transactions to the Treasury.[1] In February 1976, the Treasury was still perfecting the report forms and had collected no data.

After Franklin and Herstatt, the regulatory agencies became concerned and devised their own report forms but, as yet, no information on foreign exchange transactions of banks is made public. Up to 1974, futures contracts to buy and sell currencies were reported by banks for their foreign branches as memoranda items at year-end. But domestic offices were not required to include foreign exchange contracts among the contingency liabilities which they reported and so it was not possible to determine from this information the overall position of the bank. Moreover, these reports provided no break-down by currency or maturity and so neither the position of the individual bank nor the impact of transactions on exchange rates could be ascertained.

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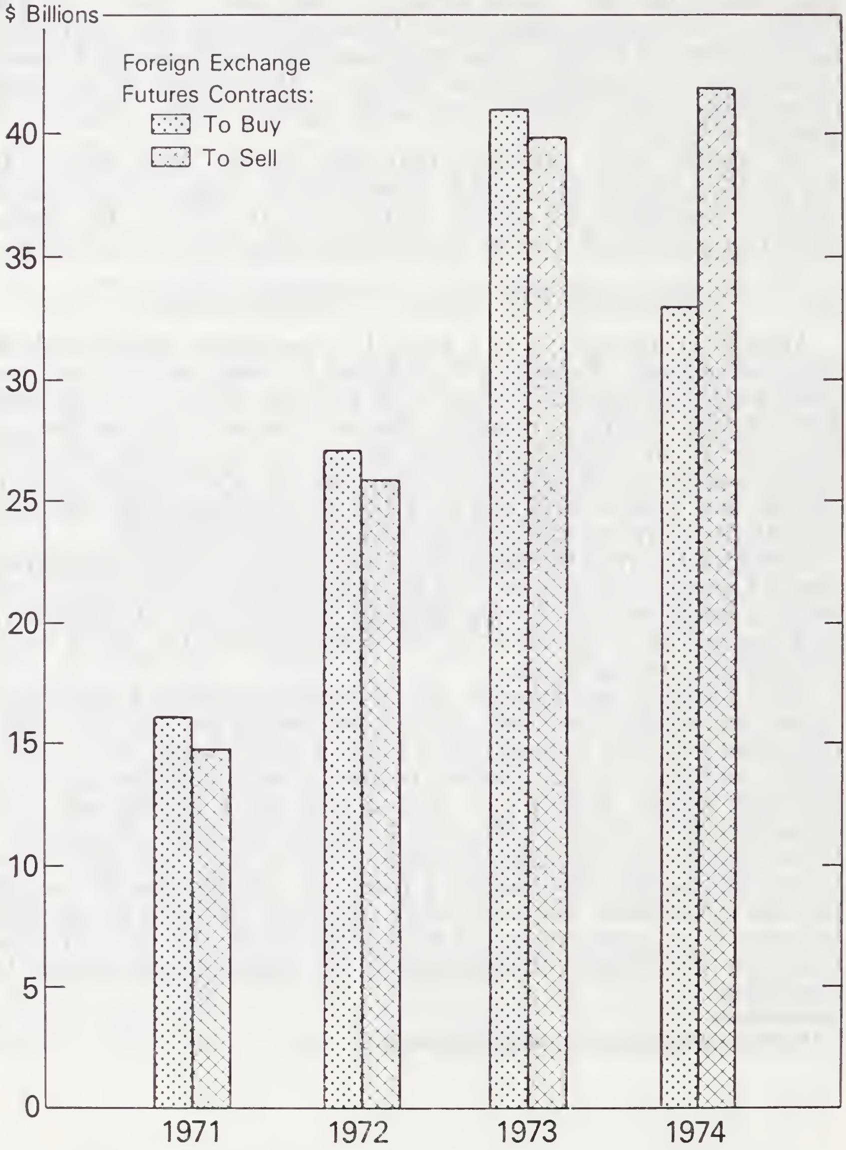
[1] Par Value Act (PL 93–110), September 21, 1973.

Chart 1 Aggregate Foreign Exchange Contracts of Foreign Branches of 12 Multinational Banks

1971-1974



Source: Federal Reserve Board

The data in chart 1 are derived from the aggregate reports on branches of 12 multinational banks. For all its limitations, it does document the dramatic increase in foreign currency transactions of these banks from the beginning of 1972 through year-end 1974, the period following the first and second devaluations of the dollar, the advent of floating rates and, finally, the crisis following Franklin and Herstatt. Since the figures are based on year-end reports and only include contracts of foreign branches, they are probably greatly understated. Nevertheless, a gross volume of $40 billion buys and $40 billion sells for these 12 banks is evidence of how important this market has become.

Clearly the foreign exchange market is not one which should have been abandoned to self-regulation and lack of disclosure during these years. The rapidity of its growth should have been matched on the part of regulators with initiative and innovation in devising a system of monitoring these activities. Had such a system been in place, the excesses which destroyed Franklin could have been detected. In a system of self-regulation, it is not difficult for an individual bank to escape detection. Had all banks been monitored, the aberrant individual would have been caught because of its transactions with others.

TABLE 1.—FOREIGN EXCHANGE CONTRACTS OF FOREIGN BRANCHES OF 12 MULTINATIONAL BANKS

	1971		1972		1973		1974	
	Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell
Bank of America	3,002	2,678	7,043	7,072	13,225	12,787	5,139	15,716
Bankers Trust	1,324	1,287	1,901	1,878	2,766	2,726	3,012	2,968
Chase Manhattan	2,078	1,777	3,734	3,263	4,060	3,725	5,189	4,621
Chemical Bank	1,861	1,741	2,211	2,107	2,251	2,260	2,025	2,000
Continental Illinois National Bank	1,924	1,879	1,661	1,602	2,156	2,105	1,419	1,288
First National Bank, Boston	25	26	1,158	1,171	5,083	4,948	2,821	2,813
First National Bank of Chicago	299	210	521	479	881	784	1,177	5,391
First National City Bank	2,241	1,912	3,513	3,032	3,902	3,910	6,131	1,167
Manufacturers Hanover Trust	370	344	539	503	1,252	1,283	1,198	1,183
Marine Midland	555	567	660	674	916	928	892	913
Morgan Guaranty Trust	2,045	2,040	3,882	3,853	4,265	4,265	3,785	3,775
Wells Fargo Bank	187	185	103	89	112	78	85	47
Total	15,911	14,646	26,926	25,723	40,869	39,799	32,873	41,882

Table 1 gives data on purchases and sales of foreign exchange by branches of the 12 multinational banks whose aggregate data are shown on chart 1. As this data indicates, one bank—Bank of America—has had a dominant role in terms of branch data throughout the period and is largely responsible for the "gap" in 1974 between buys and sells which is shown on the chart. Again, it is important to note that these are not sensitive data and do not include the whole position of any of the banks since contracts of the home office and Edge Act Corporations are not included.[2] This table is presented as an example of the inadequacy of existing information.

[2] Some regional banks do much of their foreign exchange business through Edge Corporations located in New York and many New York banks execute a substantial number of contracts at the home office.

TABLE 2.—*Outstanding foreign exchange contracts of Franklin National Bank to banks related to Sindona, March 1974*

Banca Unione:	
Apr. 30, 1974	$23, 200, 000
Mar. 28, 1974	16, 000, 000
Jan. 14, 1975	10, 000, 000
Sep. 9, 1974	1, 172, 250
Do	3, 517, 500
July 30, 1974	4, 500, 000
Aug. 25, 1974	20, 000, 000
June 7, 1974	8, 740, 000
Feb. 10, 1975	4, 120, 000
Sep. 9, 1974	4, 670, 000
Oct. 1, 1974	16, 000, 000
Do	4, 625, 000
Amincor:	
Oct. 1, 1974	22, 000, 000
Do	4, 625, 000
Edilcentro: June 1974–Mar. 1975	163, 798, 000
Total	296, 967, 750

Source: Comptroller of the Currency.

Table 2 is included here to illustrate one of the problem areas in foreign exchange trading. The table lists outstanding contracts between Franklin National Bank and two foreign banks and a financial subsidiary also controlled by Michele Sindona. Since Franklin's capital was $226 million at year-end 1973, these contracts were not only in excess of Franklin's legal limit on loans to one borrower—10%, or $22.6 million—but were in excess of capital.

The "insider" character of these transactions is probably atypical but the fact that foreign exchange contracts with other individual banks exceed legal lending limits is not uncommon. The funds which Seattle First National Bank lost (but eventually recovered in part) in its dealings with Herstatt were more than 10% of its capital. All interbank transactions are free of the restraints of loan limits and this is now seen as a factor which increases their risk. Given that the number of participants in foreign exchange markets is much smaller than those who participate in other areas of the market, the probability that banks have high concentrations of contracts with other individual banks is very real. Thus, the credit risk in foreign exchange—the risk described above involving the failure of the other party to a transaction to deliver—is greater as the range of participants narrows and they are of larger size. In the event of a failure, a central bank would almost certainly have to intervene and assume contracts as the Federal Reserve did in the case of Franklin to prevent turmoil and possible failures and to restore confidence in international markets.

CONCLUSION

The *laissez faire* character of foreign exchange markets has been perpetuated by bank regulators who know too little about it to be able to determine whether and what form of regulation will be beneficial. They have focused on the need for adequate internal controls as the means for ensuring that foreign exchange operations will not threaten the soundness of banks. While these controls are necessary, they will not eliminate the threat to banks which is inherent in activities involving volatile, speculative markets.

The most obvious first step to take in regulating foreign exchange would be to extend limits on loans to one borrower to foreign exchange transactions, restricting the aggregate amount of contracts outstanding with a given customer or bank. Regulators have resisted this step because it might tend to hobble the overall volume of transactions since there are so few banks that make a market in foreign exchange. Suggestions that the overall foreign currency exposure of banks be limited in relation to capital have also been discounted for the same reasons.[3]

Such a view implies that the usual considerations relating to bank soundness should be waived for these few very large banks because their role in making this market has such obvious economic benefits. Obviously some of the economic benefits are real. Banks have helped floating rates work by making a market in foreign exchange and helping stabilize fluctuations. But this view would carry more weight if more were known about foreign exchange markets: how big are they, whom do they serve, what portion of the market is trade-related and, of that portion, how much involves U.S. trade, how much trade between third countries, etc. In the absence of such information a regulatory decision to exempt these activities from the application of statutory restraints seems totally unjustified.

Banks may be the natural agents for foreign exchange operations because of their size, expertise, the need to deal with borrowers and lenders from different countries, etc. But, like so many bank activities in recent years, foreign exchange activities may involve greater risk than is consistent with banks' function of issuing the nation's medium of exchange, holding demand deposits and supplying credit for the domestic economy. There is a need to weigh the social importance of these activities against the disadvantages of the additional risk. Financial institutions which do not accept deposits and are not related to banks could undertake this activity just as specialized institutions now deal in gold, commodities, securities, etc. In any event, considerations involving social benefits do not excuse the absence of provisions for adequate safeguards against substantial risk-taking.

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[3] The views of regulators stated here are based on staff responses of inquiries as to why there is no extension of lending limits to foreign exchange transactions.

CHAPTER 7

Twelve Multinational Banks

In 1966 there were only 12 U.S. banks with foreign branches. By year end 1974, 125 U.S. banks had branches outside the United States, 20 had 3 or more foreign branches and the 30 largest banks had multinational operations through networks of branches, subsidiaries and affiliates located in 102 countries throughout the world. Between 1966 and 1975, the circle of banks involved in international banking widened to include not only more American banks, but more foreign banks as well. The larger banks of all developed countries established operations in London, New York and other major financial centers and banks from developing countries also became participants in international financial activities.

Over this period of time, the 12 large U.S. banks which had developed multinational operations in the early 1960's continued to expand even as they shared the growing volume of international business with other banks. An expansion of international activity provided an outlet for growth for these banks whose domestic operations are constrained by geographic restrictions. Even so, they increased their share of total U.S. domestic assets over the period from 1971 to 1974 but increased even more their share of the combined total domestic and foreign branch assets (Table 1). As this indicates, international business has been the major growth area in banking. Growth has been encouraged by the absence of regulatory restraints.

TABLE 1.—DOMESTIC AND FOREIGN BRANCH ASSETS OF 12 MULTINATIONALS: THEIR SHARE OF TOTAL DOMESTIC ASSETS AND OF TOTAL DOMESTIC AND FOREIGN BRANCH ASSETS OF ALL U.S. BANKS, 1971–74

[In millions of dollars]

	1971				1972			
	Domestic assets		Domestic and foreign branch assets		Domestic assets		Domestic and foreign branch assets	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Bank of America	24,952	3.9	36,476	5.2	28,214	3.8	37,947	4.7
First National City Bank	17,640	2.8	33,224	4.7	20,515	2.8	35,749	4.4
Chase Manhattan	18,481	2.9	27,653	3.9	23,242	3.1	33,320	4.1
Manufacturers Hanover	11,776	1.8	14,250	2.0	12,149	1.6	16,016	2.0
Chemical Bank	10,648	1.7	12,725	1.8	12,346	1.7	15,411	1.9
Morgan Guaranty	10,334	1.6	14,239	2.0	11,208	1.5	16,538	2.0
Bankers Trust Co	7,480	1.2	10,467	1.5	9,367	1.3	12,815	1.6
Continental Illinois	7,266	1.1	9,631	1.4	9,546	1.3	11,986	1.5
First National City Bank, Chicago	6,956	1.1	9,411	1.3	8,671	1.2	11,332	1.4
Wells Fargo	6,789	1.1	7,701	1.1	7,634	1.0	8,928	1.1
First National Bank, Boston	3,817	.6	4,871	.7	4,275	.6	5,796	.7
Marine Midland—New York	3,147	.5	4,457	.6	3,185	.4	4,850	.6
Total, 12 banks	129,286	20.2	185,105	26.4	150,353	20.3	210,688	25.9
Total, all banks	640,300	100.0	701,600	100.0	739,000	100.0	812,500	100.0

	1973				1974			
	Domestic assets		Domestic and foreign branch assets		Domestic assets		Domestic and foreign branch assets	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Bank of America	32,270	3.9	46,606	4.9	36,492	4.0	56,915	5.3
First National City Bank	24,195	2.9	45,067	4.7	28,871	3.1	58,759	5.5
Chase Manhattan	23,106	2.8	39,380	4.1	27,299	3.0	42,861	4.0
Manufacturers Hanover	13,498	1.6	19,508	2.0	18,918	2.1	25,638	2.4
Chemical Bank	14,207	1.7	18,572	1.9	15,345	1.7	22,703	2.1
Morgan Guaranty	13,150	1.6	20,188	2.1	16,241	1.8	25,564	2.4
Bankers Trust Co	11,769	1.4	17,076	1.8	12,924	1.4	19,072	1.8
Continental Illinois	12,197	1.5	15,803	1.7	14,243	1.5	18,593	1.7
First National City Bank, Chicago	11,215	1.3	14,979	1.6	13,028	1.4	19,349	1.8
Wells Fargo	9,417	1.1	11,658	1.2	10,658	1.2	12,603	1.2
First National Bank, Boston	4,879	.6	7,676	.8	5,454	.6	8,408	.8
Marine Midland—New York	3,363	.4	6,552	.7	4,491	.5	7,136	.7
Total, 12 banks	173,266	20.7	263,065	27.5	203,964	22.2	317,601	29.6
Total, all banks	835,200	100.0	957,000	100.0	919,600	100.0	1,071,200	100.0

Source: Reports of condition supplied by Federal Reserve Board and the Comptroller of the Currency; "Federal Reserve Bulletin"; compiled by committee staff.

While as a group these twelve banks successfully outperformed other U.S. competitors without equally extensive international operations, they lost some ground to those foreign banks which had also made large commitments to international activities. This is reflected in Table 2 which indicates that, aside from the top 3 U.S. banks, only one of the 12 multinational banks improved its rank between 1970 and 1974.[1] This bank, (First National Bank of Chicago, is one which has aggressively expended its international operations, including its foreign branch network. At year end 1974, only 18 U.S. banks were in the top 100 banks in the Free World—there were 22 in the top 100 in 1970—while 47 foreign banks with banking operations in the United States were among the top 100.

[1] While devaluation of the dollar is responsible for some of the shift in rank, the trend was already evident in 1970 and 1971.

The degree to which 12 banks have dominated the international banking activity of U.S. banks is shown in Tables 3 and 4. Table 3 provides data on their shares of the total number of foreign branches and total branch assets for 1966, and for 1971 through 1974. Table 4 gives data on the share of total assets of Edge and Agreement Corporations held by the 12 banks at year-end 1973, the latest period for which this data is available. Both tables indicate that these 12 banks conduct roughly three-quarters of the International banking activity of U.S. banks.

TABLE 2.—SHIFTS IN WORLDWIDE RANK OF 12 MULTINATIONAL BANKS

Name of bank	1970	1974
Bank of America	1	1
First National City Bank	3	2
Chase Manhattan	2	3
Manufacturers Hanover	6	13
Morgan Guaranty	13	18
Chemical Bank	14	26
Bankers Trust Co	21	29
Continental Illinois	26	34
First National City Bank, Chicago	33	32
Wells Fargo	44	64
First National Bank, Boston	68	88
Marine Midland—New York	84	90

Note: Ranked by size of deposits, Dec. 31, 1970, and Dec. 31, 1974.

Source: "American Banker."

Table 3 documents the decline in the share of branch offices and branch assets of the 12 multinational banks since 1966, as a number of other U.S. banks established branches overseas. A further breakdown of the figures indicates, however, that while the aggregate share of the top 3 banks declined from 67 percent of total assets in 1966 to 54% in 1971 and declined further to 43.5% in 1974, the other 9 banks have retained about a one-third share of total assets over the entire period from 1966. Their one-third share of the combined total of all 12 banks in 1966 had risen (by 1972) to 42% and has remained at that level.

The data on assets of Edge and Agreement Corporations of the 12 banks (Table 4) provides some information on the preferences of individual banks in handling their overseas activities. As discussed elsewhere, Edge Corporations serve several functions for the parent bank. They have been the principal vehicle for overseas investments and in some cases are used only for that purpose. A substantial portion of the assets of most Edge and Agreement Corporations are investments in overseas subsidiaries and affiliates.

TABLE 3.—SHARE OF TOTAL NUMBER OF FOREIGN BRANCHES AND OF TOTAL FOREIGN BRANCH ASSETS [1] OF 12 MULTINATIONAL BANKS/DEC .31

	1966				1971			
	Number of branches	Percent of total	Branch assets	Percent of total	Number of branches	Percent of total	Branch assets	Percent of total
Bank of America	44	18.0	2,035	16.4	96	16.6	11,524	17.2
First National City Bank	124	50.8	3,439	27.8	237	41.1	15,583	23.2
Chase Manhattan	42	17.2	2,827	22.8	81	14.0	9,172	13.7
Manufacturers Hanover	2	.8	715	5.8	4	.7	2,473	3.7
Morgan Guaranty	6	2.5	1,332	10.8	11	1.9	3,905	5.8
Chemical Bank	2	.8	216	1.7	7	1.2	2,077	3.1
Bankers Trust Co	2	.8	610	4.9	4	.7	2,986	4.5
Continental Illinois	4	1.6	217	1.8	10	1.7	2,364	3.5
First National Bank, Chicago	2	.8	401	3.2	13	2.3	2,455	3.7
Wells Fargo [2]	1	.4	150	1.2	2	.5	911	1.4
Marine Midland—New York	1	.4	84	.7	3	.3	1,310	2.0
First National Bank, Boston	12	4.9	356	2.9	23	4.0	1,054	1.6
Total 12 banks	242	99.2	12,382	100.0	491	85.1	55,815	83.2
Total member banks	244	100.0	12,384	100.0	577	100.0	67,054	100.0

	1972				1973				1974			
	Number of branches	Percent of total	Branch assets	Percent of total	Number of branches	Percent of total	Branch assets	Percent of total	Number of branches	Percent of total	Branch assets	Percent of total
Bank of America	101	16.1	9,733	12.4	103	14.7	14,336	11.8	104	14.2	20,422	13.4
First National City Bank	232	27.0	15,234	19.5	239	34.2	20,872	17.1	248	33.9	29,888	20.0
Chase Manhattan	93	14.8	10,078	12.9	103	14.7	16,274	13.4	104	14.2	15,562	10.2
Manufacturers Hanover	4	.5	3,847	4.9	6	.8	6,010	4.9	8	1.1	6,721	14.4
Morgan Guaranty	12	1.9	5,330	6.8	12	1.7	7,037	5.8	12	1.6	9,323	6.1
Chemical Bank	9	1.4	3,065	3.9	8	1.1	4,365	3.6	11	1.5	7,359	4.8
Bankers Trust Co	4	.6	3,488	4.4	6	.8	5,307	4.4	7	1.0	6,148	4.0
Continental Illinois	10	1.6	2,440	3.1	15	2.1	3,606	3.0	16	2.2	4,350	2.9
First National Bank, Chicago	15	2.4	2,662	3.4	16	2.3	3,764	3.1	23	3.1	6,321	4.2
Wells Fargo [2]	3	.5	1,294	1.7	4	.5	2,241	1.8	3	.4	1,915	1.3
Marine Midland—New York	3	.5	1,665	2.1	5	.6	3,189	2.6	6	.8	2,645	1.7
First National Bank, Boston	26	4.1	1,521	1.9	28	4.0	2,797	2.3	29	4.0	2,954	1.9
Total 12 banks	512	81.17	60,357	77.2	585	83.7	89,798	73.7	562	76.8	113,638	74.8
Total member banks	627	100.0	78,202	100.0	699	100.0	121,886	100.0	732	100.0	151,905	100.0

[1] Assets in millions of dollars.

[2] 1966 data for Irving Trust Co.

Edge Corporations are permitted in states outside the state in which the parent bank is located and can therefore transact international business for customers throughout the country and attract domestic business for the parent bank. The Edge subsidiaries of some regional banks act as adjuncts of their international departments, conducting international banking and foreign exchange operations in New York. Some of the corporations listed in Table 4 with substantial assets have both international loan and investment portfolios.

GEOGRAPHIC DISTRIBUTION OF OVERSEAS BRANCHES

Data on the geographic distribution of branches of individual banks makes it possible to discern some patterns of activity, but due to the absence of data on assets of individual branches, it is difficult to verify those patterns. As noted above, the largest number of branches of U.S. banks are in Latin America although a relatively small share of total assets are held in these branches. The more detailed information in Table 5 reveals that only 4 U.S. banks have extensive branch networks in this area, that these banks were already well established in Latin America in 1966, and that one other large bank, the First National Bank of Chicago, opened branches there after 1966.

TABLE 4.—ASSETS OF EDGE AND AGREEMENT CORPORATIONS OF 12 BANKS, DEC. 31, 1973

	Assets	Percent total assets
Bank of America	$1,596,038,164	23.1
First National City Bank	429,248,767	6.2
Chase Manhattan	753,211,650	10.9
Manufacturers Hanover	792,028,344	11.5
Morgan Guaranty	90,384,392	1.3
Chemical Bank	71,193,305	1.0
Bankers Trust	115,687,613	1.7
Continental Illinois	857,584,250	12.4
First National Bank of Chicago	285,817,033	4.1
Wells Fargo National Bank	169,190,774	2.4
Marine Midland—New York	24,449,032	0.4
First National Bank Boston	181,674,214	2.6
Total 12 banks	5,366,507,538	77.7
Total all Edge and Agreement Corporations	6,909,090,809	100.0

The First National Bank of Chicago has been one of the more aggressive banks in expanding its branch network, and has focused its efforts on expanding operations in continental Europe. A number of other banks among the 12 have also established European branches since 1966 and the three largest banks more than doubled the number of their continental branches between 1966 and 1971. Since 1971, the number has remained relatively stable as it has also in the United Kingdom. As noted above, the proportion of total branch assets held in London has declined while investments in U.K. subsidiaries and affiliates have greatly increased.

Several of the 12 multinational banks had already established branches in the Bahamas before 1969 when the proliferation of "shell" branches there and in the Cayman Islands began. That the large banks have so few branches in the Caribbean reflects Federal Reserve Board policy of limiting banks to one shell branch. These banks have, however, more than half of the $40 billion held in branches in these locations.

The policy of the Japanese government in limiting foreign bank operations is revealed in the data on branches of the 12 multinational banks in Japan. Since 1971, U.S. banks have been limited to single *de novo* branches and there has been no expansion in the number of branches of the three largest banks. There are, however, a total of 31 U.S. bank branches in Japan, one-third of which are branches of banks other than the 12 multinational banks.[2] Many of these banks have branches in other parts of the Far East as well, a number of them in Hong Kong and Singapore. By contrast, the 3 largest banks continue to dominate branch activity in the Near East and Africa. Only 2 other banks among the 12 multinationals have established new branches in this area.

[2] Total assets of branches of U.S. banks in Japan were $10.3 billion in August 1975. Branches and agencies of Japanese banks had $19.8 billion of assets in the United States in September 1975.

TABLE 5.—GEOGRAPHIC DISTRIBUTION OF OVERSEAS BRANCHES OF 12 MULTINATIONAL BANKS, 1966, 1971, 1975*

	United Kingdom and Ireland			Continental Europe			Bahamas		Latin America			Far East			Japan	
	1966	1971	1975	1966	1971	1975	1971	1975	1966	1971	1975	1966	1971	1975	1971	1975
1. Bank of America, S.F.	2	6	6	7	14	14			9	40	43	21	23	23	4	4
2. Chase Manhattan, N.Y.	2	3	3	3	14	13	6	7	14	22	34	8	12	21	2	2
3. First National City, N.Y.	3	4	5	11	24	24	2	3	67	140	132	26	32	39	4	4
Subtotal	7	13	14	21	52	51	8	10	90	202	209	55	67	83	10	10
4. Manufacturers Hanover, N.Y.	1	2	2		1	3		1							1	1
5. Chemical Bank, N.Y.	1	2	2		4	5	1	1						2		1
6. Morgan Guaranty	4	2	3	4	7	7	1	1							1	1
7. Bankers Trust, N.Y.	1	2	2		1	2	1	1						1		1
8. Continental Illinois, Chicago	2	2	2		6	9		1				2		2	2	2
9. First National Bank, Chicago	2	2	6	1	7	12				3	3		1	1		1
10. Wells Fargo, S.F.	[1] 1				1	1		1							1	1
11. First National Bank, Boston	3	2	2			2	1	1	10	20	24					1
12. Marine Midland—New York	1	1	3	0	1	4	1	1								1
Subtotal	15	15	22	5	28	45	5	8	10	23	27	2	1	6	5	10
Total, 12 banks	22	28	36	26	80	96	13	18	100	225	236	57	68	89	15	20
Total, all U.S. banks	22	48	58	26	80	108	73	123	102	229	241	57	68	[2] 125	15	

	Near East and Africa			U.S. overseas and trust territories			1966		1971		1975	
	1966	1971	1975	1966	1971	1975	Total branches	Percent of total	Total branches	Percent of total	Total branches	Percent total
1. Bank of America, S.F.	2	1	1	3	8	9	44	18	96	17	100	14
2. Chase Manhattan, N.Y.	2	4	4	13	17	22	42	17	80	14	106	14
3. First National City, N.Y.	4	11	13	13	20	23	124	51	237	41	243	33
Subtotal	8	16	18	29	45	54	210	86	413	72	449	61
4. Manufacturers Hanover, N.Y.			1				1		4	1	8	7
5. Chemical Bank, N.Y.							1		7	1	11	9
6. Morgan Guaranty							4	2	11	2	12	10
7. Bankers Trust, N.Y.							1		4	1	7	6
8. Continental Illinois, Chicago							4	2	10	2	16	13
9. First National Bank, Chicago			3				3	1	13	2	26	21
10. Wells Fargo, S.F.							1		2		3	2
11. First National Bank, Boston							13	5	23	4	30	25
12. Marine Midland—New York							1		3	1	9	7
Subtotal			4				32	13	77	13	122	17
Total, 12 banks	8	16	22	29	45	54	242	99	490	85	571	78
Total, all U.S. banks	8	17	22	29	47	55	244	100	577	100	732	100

*Figures for Dec. 31, 1966, Dec. 31, 1971, June 30, 1975.
[1] 1966 figure for Irving Trust rather than Wells Fargo.
[2] Includes Japan.

As Table 5 indicates, the 3 largest U.S. banks have truly global branch networks, but they are the only American banks which do. Foreign branch operations for other banks are an important share of their total business, but for these 3 banks, with 43% of total branch assets and more than one-third of their assets in overseas offices, international business has probably become a dominant factor in their operations.

RATIOS OF FOREIGN ASSETS TO TOTAL ASSETS

Bank of America has added only 4 branches to its entire branch network since 1971 as compared with 11 for First National City Bank and 23 for Chase Manhattan. But the percentage of total assets held by Bank of America in foreign branches has risen 4.3% as compared with a 4% increase for First National City and 3.1% for Chase Manhattan. The average ratio of foreign assets to total assets for all 12 multinational banks has hovered around 30% since 1971 (Table 6). There was a drop in the average in 1972 to 28.6% which reflects the fact that the share of total assets held overseas by 6 banks declined while the foreign share increased for the other six. Foreign branch assets for all banks grew 30% in 1972, but domestic business also grew very rapidly and outstripped international operations for some banks. This was also a period of major expansion in banks' investments in foreign subsidiaries and affiliates and in their domestic holding company affiliations, and a year in which international activity slowed for a brief period.

The extraordinary increase in U.S. banks' foreign branch assets (53%) in 1973 is reflected in the data for these 12 banks as well. The average ratio of branch-to-total assets rose to 34%, a 5½% increase over the previous year. For two banks—Chase Manhattan and First National Bank of Boston—the increase in the ratio was over 10% and for Marine Midland Bank—New York it was 14.4%. Events in the following year proved two of these banks to have been overextended. Marine Midland's ratio of foreign branch/total assets dropped 11.6% and branch assets shrank from $3.2 billion in 1973 to $2.6 billion in 1974. Chase Manhattan's ratio fell 5% and branch assets decreased from $16.3 billion to $15.6 billion.

There were significant differences in the shifts in the foreign branch/total asset ratios of these 12 banks in 1974. Ratios for seven of the banks rose, including those for Bank of America which increased branch assets $6 billion and First National City Bank with an increase of $9 billion. Although the dollar amounts were smaller, the increase in branch assets as a share of total assets for Chemical Bank (8.9%) and First National Bank of Chicago (7.9%) were more dramatic in a year of crisis in international markets.

TABLE 6.—ASSETS AND LIABILITIES OF FOREIGN BRANCHES OF 12 MULTINATIONAL BANKS AS PERCENTAGES OF THEIR TOTAL ASSETS/LIABILITIES

Name of bank	1971	1972	1973	1974
Bank of America	31.6	25.6	30.8	35.9
First National City Bank	46.9	42.6	46.3	50.9
Chase Manhattan Bank	33.2	30.2	41.3	36.3
Manufacturers Hanover	17.4	24.0	30.8	26.2
Morgan Guaranty	27.4	32.2	34.8	36.5
Chemical Bank	16.3	19.9	23.5	32.4
Bankers Trust Co	28.5	27.2	31.1	32.2
Continental Illinois National Bank & Trust Co	24.5	20.4	22.8	23.4
First National Bank, Chicago	26.1	23.5	25.1	33.0
Wells Fargo Bank	11.8	14.5	19.2	15.4
Marine Midland Bank, New York	29.4	34.3	48.7	37.1
First National Bank, Boston	21.6	26.2	36.4	35.1
Average, 12 banks	30.2	28.6	34.1	32.9

Source: Federal Reserve Board.

One can assume that some of these 12 banks received substantial amounts of the OPEC funds which came into the Eurodollar market. Other banks which did not attract as large a share of the OPEC deposits as needed to replace a declining volume of interbank liabilities replaced some of the run-off with borrowings from the parent. Others may have chosen to wind down their activities by withdrawing some of the funds they had placed with other Eurobanks, thus contributing to the shrinkage in the interbank market as they reacted to it.

FOREIGN EARNINGS

Before 1976, banks were required to report only net foreign income to regulatory authorities rather than integrate operating income and expenses from foreign sources into that reported for domestic offices. Different banks had different methods of reporting income and of allocating costs. Some income reports included international operations conducted in the United States by the home office or Edge Act subsidiaries and some did not. Net income from subsidiaries or from foreign exchange trading was not reported if less than 25% of total operating income. Bank of America reported net foreign income before taxes and before allocating costs. This has inflated its ratio of foreign to total income as noted on Table 7. Table 7 is, therefore, a not too reliable guide to the importance of foreign earnings for individual banks. Nevertheless, it gives some indication of trends over the period covered and, in most cases, is close to figures given by the banks in their annual reports.

TABLE 7.—NET FOREIGN INCOME OF 12 MULTINATIONAL BANKS, AS A PERCENTAGE OF TOTAL NET INCOME [1]

Name of bank	1971	1972	1973	1974	1975
1. Bank of America NA, San Francisco	16.8	53.0	56.5	[2] 85.9	108.2
2. First National City Bank, N.Y	45.8	63.1	61.5	68.1	126.8
3. Chase Manhattan Bank, N.Y	19.7	28.2	42.6	41.4	[3] 81.8
4. Manufacturers Hanover Trust Co., N.Y	34.5	46.8	44.6	52.7	51.2
5. Morgan Guaranty Trust Co., N.Y	15.4	27.7	32.1	20.5	44.2
6. Chemical Bank, N.Y	4.2	6.0	4.2	20.8	32.1
7. Bankers Trust Co., N.Y	24.9	38.4	80.5	48.3	81.1
8. Continental Illinois N.B. & T.C., Chicago	4.8	15.9	18.2	15.6	[4] 15.3
9. First National Bank, Chicago	14.7	22.4	21.1	17.0	63.1
10. Wells Fargo Bank NA, San Francisco	NA	6.6	21.4	11.9	9.7
11. Marine Midland Bank, N.Y	51.6	58.8	78.7	[5] 87.3	([6])
12. First National Bank, Boston	17.6	40.3	37.5	42.1	[7] 79.6
Average, 12 banks	22.7	33.9	41.6	42.6	63.0

[1] Income reported varies from bank to bank and may not include income from overseas branches or subsidiaries if less than 25 percent of total operating income. In some cases, foreign income includes net earnings on foreign exchange operations if in excess of 25 percent.
[2] An explanation of the data for this bank is given in the text. The bank reported net foreign income as a percentage of total net income of 25 percent in 1971, 28 percent in 1972, 32 percent in 1973 and 39 percent in 1974.
[3] Chase Manhattan Bank reported a net loss by foreign subsidiaries of $8,481,000.
[4] Continental Illinois N.B. & T.C. reported a net loss by foreign subsidiaries of $2,241,000.
[5] Includes foreign exchange profits which is in excess of 25 percent of total operating income and net income from foreign branches and Edge Act subsidiaries.
[6] $7,361,630 foreign earnings against a $2,967,385 net loss for Marine Midland Bank, N.Y.
[7] Includes $14,325,000 Eurodollars sold which is 40 percent of net income.

Note: NA denotes figures not available.

Source: Consolidated Report of Income; compiled by committee staff.

The Federal Reserve Board has provided aggregate figures on the earnings of the 30 largest banks at year-end 1974. As this data indicate, the bulk of the assets and income of these banks is derived from their branches.[3] Table 4 in the section on overseas investments indicates that the rate of return for the branches as a percentage of total assets is 0.50 while rates of return for foreign subsidiaries—0.30 for banking subsidiaries, 0.45 for finance companies, and 0.50 for leasing companies—is lower.

The 30 largest multinational banks had a far lower rate of return on assets (foreign and domestic) than the average for all member banks at year-end 1974—0.49% as compared with 0.78%. The rate of return on total assets of insured U.S. commercial banks has been approximately 0.79% since 1968. Most multinational banks did not in fact report substantially lower profits in 1974. Therefore, data on the rate of return on assets is more an indication of the proportion of their income which is derived from fees and of the degree to which their activities have departed from the traditional commercial banking business conducted by the majority of U.S. banks.

INTERBANK ACTIVITIES OF MULTINATIONAL BANKS

The foreign interbank market has been the principal source of funds for foreign branches of U.S. banks since 1966. Table 8 gives ratios for the combined domestic and foreign branch interbank activity of 12 banks. As the note on the table indicates, foreign branch data for individual banks do not break-out interbank liabilities after 1971. The data for 1971 show that the average ratio of interbank/total liabilities for these 12 banks was 28.5%. But information on domestic interbank liabilities indicates that an overall increase in borrowing

[3] See Table 5, Chapter 3.

from other banks has occurred since that time. The table does document the substantial increase in lending to other banks which occurred between 1971 and 1973 and also provides additional evidence of the decline in the interbank market in 1974 which is discussed elsewhere.

Since 1969, the domestic interbank market has also supplied a substantial portion of the funds of the 12 largest banks. About $32 billion of domestic interbank funds were held as liabilities by banks in New York at year-end 1974. The two largest New York banks obtained over a quarter of their total liabilities in the interbank market. Four other large New York City banks obtained interbank funds equal to between 30 and 40 percent of total liabilities and 2 others—Irving Trust Company and Marine Midland–New York—obtained about 45 percent of total liabilities from this source. Chicago banks were also substantially dependent on the domestic interbank market for funds. Continental Illinois had a ratio of gross domestic interbank liabilities to total liabilities of 28% and the ratio for First National Bank of Chicago was 19%. Banks in California and elsewhere were less involved in interbank activity. (See Table 8) Bank of America is, in fact, a net seller of interbank funds.

A high level of interbank activity does not necessarily indicate that a given bank is involved in unsound practices. But the high level of these 12 banks in the aggregate does point to a structural change in the banking system which may have weakened the system. The growth of interbank assets of these 12 banks and of the market as a whole is much larger than the growth of other assets and other markets except the Eurodollar market itself which is dominated by interbank activity. The so-called "domino theory" of bank failure supposes that the interrelationship between banks is of significant size so that the problems of one bank are passed on to others. As data indicate, interrelationships between banks through both the interbank and foreign exchange markets are now so large that one bank's problems are inevitably passed on to others.

The interbank market is not a new phenomenon. Since the development of modern banking, banks have maintained balances with correspondents in other cities and countries and banks which are not members of the Federal Reserve System count deposits with other domestic banks as a portion of the reserves they are required to maintain under state laws. Before the establishment of Federal Reserve banks in 1914, all commercial banks maintained reserve balances with other banks. This practice led to panics precipitated by the funneling of excessive bank credit into speculative loans and the bidding up of deposit rates with the result that there was an increased flow of deposits of smaller banks outside the money market centers to the larger money market banks. A rumor that a given bank was in trouble would cause a run on the bank which would develop into a panic as it attempted to meet its own deposit liabilities by utilizing the reserves of other banks which then lacked adequate liquid assets to pay off their own depositors. A series of such events unfolded during the panic of 1907 and was a factor in widening the ripple effects of bank failures in the 1930's.

The increased vulnerability of individual banks which are substantially dependent on interbank liabilities is discussed elsewhere.[4]

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[4] See Chapters 2 and 9.

But banks which lend substantial funds to other banks are also extremely vulnerable. Loans to other banks are exempt from legal limits on loans to one borrower in relation to capital and the total exposure of some banks to their bank customers can be "staggering" when compared with standards of maximum credit exposure applied to nonbank customers.[5] If foreign exchange contracts are included, the amount may rise to a level which is well beyond prudent limits.

It is useful to remember that sales of Fed funds and Eurodollar deposits are unsecured and that if these funds are lost due to the failure of a bank, they will not be charged to the lender's loss reserve but as a current period expense item.[6] Thus, the volume of interbank lending to given customer in relation to capital is an important indicator of prudent banking practices for individual banks.

The proportion of their total funds which these banks provided to other banks in 1974 made them highly vulnerable to failures by other banks especially if, because of general economic factors, a number of banks from a given country were involved. On the other hand, the amount of funds which were provided to these banks by other banks as early as 1971 and which one can reasonably infer has risen substantially since that time[7] may be viewed as an indication of how important to the well-being of the banking system as a whole is the soundness of these relatively few but very large institutions. These 12 banks collectively owed 28.5% of total liabilities to other banks in 1971, with net interbank liabilities of 16.7%. By 1974, the average net domestic interbank liabilities of their home offices alone had risen to 18% and gross liabilities to other banks were 26% of the aggregate liabilities of U.S. offices of these banks.

Through their branch networks, these 12 banks reach into the domestic money markets of almost all industrialized countries and into major portions of developing areas as well. Together they controlled $317 billion of assets at year-end 1974, about 30% of the domestic and foreign branch assets of all insured U.S. banks. The failure of any one of these banks could cause the most serious disruption in financial markets not only in the United States, but in other countries as well. Thus, there needs to be a reassessment of the appropriateness of the regulatory framework to their operations. In addition, the advantages and disadvantages of permitting banks to attain the size of these 12 banks should be weighed carefully.

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[5] Hugh M. Durden, "Interbank Lending," *Journal of Commercial Bank Lending,* V. 58, March 1976, p. 15.

[6] *Ibid.*, p. 19.

[7] The liabilities of all foreign branches of U.S. banks to other foreign banks were 43.2% of total liabilities on December 31, 1974.

TABLE 8.—FOREIGN AND DOMESTIC ASSETS/LIABILITIES OF 12 MULTINATIONAL BANKS IN INTERBANK MARKETS AS A PERCENTAGE OF TOTAL ASSETS/LIABILITIES

	Assets [1]				Liabilities
	1971	1972	1973	1974	1971 [1]
Bank of America	11.9	17.3	20.7	13.5	17.1
First National City Bank	9.3	11.3	15.6	16.3	21.0
Chase Manhattan	12.6	14.9	17.1	19.3	26.9
Manufacturers Hanover	4.8	7.3	9.2	27.6	40.1
Morgan Guaranty	10.7	16.2	18.8	19.6	32.5
Chemical Bank	10.4	15.3	16.2	15.3	27.6
Bankers Trust Co	15.4	23.2	22.6	19.4	27.2
Continental Illinois	5.1	13.7	15.1	11.8	26.9
First National Bank, Chicago	11.5	11.2	16.5	12.2	27.0
Wells Fargo Bank	10.3	7.2	11.4	11.0	20.6
Marine Midland Bank, New York	22.5	32.7	53.2	36.6	44.9
First National Bank, Boston	17.3	25.4	21.6	11.1	29.9
Average, 12 banks	11.8	16.3	19.0	17.8	28.5

[1] Data are for end of year.

Note: There is no break-out of interbank liabilities in data on foreign branches after1971. Data includes only transactions with other banks and not intrabank transactions within foreign branch networks or between foreign branches and home offices.

Source: Reports of condition supplied by the Comptroller of the Currency and the Federal Reserve Board. Compiled by staff, House Committee on Banking, Currency and Housing.

TABLE 9.—INTERBANK ASSETS/LIABILITIES OF THE 21 LARGEST U.S. BANKS AS PERCENTAGES OF THEIR TOTAL ASSETS/LIABILITIES

Name of bank	1971				1972				1973				1974			
		Liabilities				Liabilities				Liabilities				Liabilities		
	Assets	Total	Federal funds	Net liabilities	Assets	Total	Federal funds	Net liabilities	Assets	Total	Federal funds	Net liabilities	Assets	Total	Federal funds	Net liabilities
Bank of America	7.6	8.3	6.0	0.7	8.5	8.3	6.2	(0.2)	10.7	9.7	7.5	(1.0)	9.3	8.1	4.7	(0.8)
First National City Bank	3.7	14.7	5.1	11.0	4.5	18.9	7.8	14.4	6.7	22.7	7.5	16.0	*6.4	*25.7	*10.2	19.3
Chase Manhattan Bank	5.4	17.6	4.9	12.2	8.1	21.9	7.4	13.8	7.7	21.7	7.3	14.0	*12.6	*27.4	*7.8	14.8
Manufacturers Hanover	5.4	32.7	4.2	27.3	8.8	28.5	5.9	19.7	8.9	27.8	4.3	18.9	12.1	32.0	8.2	19.9
Morgan Guaranty Trust Co	5.1	28.6	8.1	21.5	8.4	26.9	8.4	18.5	10.2	29.4	11.9	19.2	11.6	32.6	15.6	21.0
Chemical Bank, N.Y	3.4	20.0	7.6	16.6	5.6	22.6	10.5	17.0	5.6	24.1	12.9	18.5	6.1	29.0	9.1	25.9
Bankers Trust Co., N.Y	5.1	19.0	3.3	13.9	14.2	26.5	8.6	12.3	9.8	27.2	6.7	17.4	11.4	37.8	20.0	6.4
Continental Illinois N.B. & T.C	3.0	14.8	4.9	11.8	3.3	17.0	9.4	13.7	5.4	24.7	18.4	19.3	5.2	28.6	22.6	23.4
First National Bank, Chicago	5.8	17.7	11.0	11.9	3.8	15.8	10.8	12.0	5.9	16.8	10.6	10.9	5.2	19.5	11.7	14.3
Security Pacific National Bank	1.9	6.4	4.8	4.5	2.0	9.0	7.0	7.0	4.0	7.7	6.0	3.7	3.5	9.7	8.1	26.2
Wells Fargo Bank N.A	4.0	11.6	9.9	7.6	1.7	9.3	6.7	7.6	3.6	18.4	15.8	14.8	4.8	12.0	10.5	7.2
Crocker National Bank	4.6	9.9	7.7	5.3	5.0	8.3	6.1	3.3	6.5	12.4	9.5	5.9	8.0	7.6	5.0	(.4)
Mellon Bank N.A	18.4	15.7	11.2	(2.7)	19.3	18.3	14.8	(1.0)	20.2	15.2	12.1	(5.0)	*16.6	*13.6	*8.7	(3.0)
Irving Trust Co., N.Y	4.2	28.7	4.2	24.5	6.1	28.4	3.8	24.3	14.3	28.6	5.4	14.3	15.7	44.4	14.9	28.7
United California Bank	3.2	17.9	12.5	14.7	3.2	14.8	8.4	11.0	3.6	17.5	12.0	13.9	8.9	14.8	7.9	5.9
Marind-Midland Bank-N.Y	5.1	30.0	4.1	24.9	14.7	26.3	4.5	11.6	17.2	36.7	8.1	19.5	11.9	45.3	8.5	33.4
First National Bank, Boston	3.5	21.1	9.7	17.6	10.2	20.6	13.2	10.4	5.6	22.1	11.7	16.5	5.6	16.7	9.7	11.1
National Bank of Detroit	11.5	14.2	9.7	2.7	17.4	11.0	7.0	(6.4)	9.3	15.1	11.3	5.8	16.1	17.9	13.7	1.8
First Pennsylvania Bank, N.A	3.5	16.6	9.6	13.1	1.2	18.8	8.0	17.6	7.1	22.3	16.5	15.2	10.4	28.8	24.5	18.4
Franklin National Bank	9.9	11.9	7.7	2.0	15.0	19.6	12.8	4.6	14.1	26.8	20.9	12.7				
Union Bank, Los Angeles	5.0	9.8	6.3	4.8	5.3	11.7	8.4	6.4	5.2	20.0	16.1	14.8	5.2	9.7	7.5	4.5
Average all banks	5.7	17.5	7.3	11.8	7.9	18.2	8.4	10.3	8.6	21.3	11.1	12.7	9.3	23.0	11.4	13.7

Note: Interbank assets include loans to domestic and foreign banks, demand balances with banks in the United States, other balances with banks in the United States, balances with banks in foreign countries and Federal funds sold and securities purchased under agreement to resell. Interbank liabilities include demand and time deposits of banks in the United States and foreign countries and Federal funds purchased and securities sold under agreements to repurchase. Data are for domestic offices of banks; foreign branch data are not included. Data for 1971, 1972, and 1973 as of Dec. 31, 1974 data as of Oct. 15 except where marked (*) which is June 30. Banks are ranked by size of deposits, Dec. 31, 1973.

Source: Reports of condition supplied by the Comptroller of the Currency and by the Board of Governors of the Federal Reserve System. Compiled by Staff House Committee on Banking, Currency and Housing.

FOREIGN LOANS OF MULTINATIONAL BANKS

In March 1976, the Federal Reserve Board provided data on foreign claims and liabilities of foreign branches of the 21 largest banks to the Subcommittee on Multinational Corporations of the Senate Foreign Relations Committee. The banks covered by this data are not the same as those included in data used here. However the six largest banks in both samples are the same.

The data were collected to indicate the degree of "exposure" of these banks to individual countries in terms of credits extended and to determine whether or not concentrations of deposits of Oil Producing Countries create undue risks for banks. A Federal Reserve staff memorandum accompanying the data minimized the risk by noting that dollar deposits withdrawn from U.S. banks and placed in foreign banks would almost certainly be recaptured by American banks through the interbank market and that attempts to convert dollar holdings to holdings in other currencies would have exchange rate effects which would result in losses in the value of the holdings and so dissuade OPEC depositors from this course of action.

But, despite this disclaimer or risk, the data are disturbing. The exchange rate effects described could only occur because the size of the holdings is so large. As the memorandum notes, 78 percent of OPEC deposits in the branches of the 21 banks surveyed, are deposits in the 6 largest banks. The aggregate for these banks is $11.3 billion, 41% of the branch deposits reported here and 5.7% of their total deposits.[8] Thus the problem of concentration involves the fact that both the holders of these dollar assets and those who are liable for them are very few in number.[9] As a result, the notion that the international financial market is a free market—or that it is even a private market—is no longer viable. It is, instead, a market which can be influenced or perhaps even dominated by political considerations in which U.S. public policy has only an indirect input.

The same comments apply to an analysis of the credits extended to individual countries. It is difficult to make a comprehensive analysis of this data because it is incomplete but, again, the pattern is one of concentration of loans to a few countries by a few banks. A more detailed discussion of country loans is included elsewhere, but it should be noted that 65% of the claims reported were held by the 6 largest banks.

Another disturbing aspect of the data is the discrepancy between total claims and liabilities. The staff memorandum offers no explanation for the gap between foreign borrowers and depositors but, as discussed elsewhere, a substantial proportion of foreign branch liabilities were provided by U.S. residents in 1975. The break-down in Table 9 reveals that the 6 largest banks got the bulk of foreign deposits while proportionately the 9 smallest in the group got the least. Thus one can infer that the branches of these 9 banks are most dependent on funds provided by the parent bank and other U.S. residents to support their foreign credits. This is a factor which could affect the ability or willingness of these banks to increase their foreign credits and thus further reduce their share of the market. Since the concen-

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[8] The maturity structure of deposits revealed by this source is discussed in the section on term loans in the next chapter. The OPEC "deposits", however, are almost evenly divided between less than 30 days and more than 30 days. A further breakdown of liabilities over 30 days is not available. It appears, however, that OPEC liabilities are very short-term.

[9] Although data is given for six banks, it is by no means evenly distributed among them. The increases in assets/liabilities in 1974 indicate that Bank of America and Citibank may hold the bulk of OPEC deposits.

tration of OPEC deposits in a few banks is clearly related to this development, it can be said to have the effect of reducing competition in international financial markets.

TABLE 10.—U.S. BANK LIABILITIES TO RESIDENTS OF SELECTED FOREIGN COUNTRIES AS OF DEC. 31, 1975

[In millions of dollars]

	Total	Percent of liabilities payable in 30 days or less	Percent of liabilities payable in more than 30 days
Group 1:			
OPEC countries	13,811	44.9	55.9
Other countries	13,042	45.3	54.7
Group 2:			
OPEC countries	2,786	45.2	54.8
Other countries	2,969	49.9	50.0
Group 3:			
OPEC countries	1,554	48.1	51.9
Other countries	2,118	29.0	71.0
Total:			
OPEC countries	18,151	45.3	55.0
Other countries	18,129	44.2	55.

Note: These liabilities include large interbank borrowings and deposits. Group 1 includes the 6 largest U.S. banks; group 2, the 2d 6 largest; and group 3, 9 other banks.

Source: Federal Reserve Board. Information collected for the Honorable Frank Church, chairman of the Subcommittee on Multinational Corporations; Committe on Foreign Relations, U.S. Senate.

It is beyond the scope of this paper to explore possible remedies for the problem to which the Senate Subcommittee has called attention. It is largely a political problem but it also has serious implications for bank supervision and regulation. The most obvious remedy is to suggest that it should be U.S. policy to encourage a redistribution of these liabilities to a wider group of banks and non-bank holders. It does seem remarkable that a narrow sector of the private banking system has been permitted or encouraged to assume quasi-governmental functions and that so much control over a financial market which is so important to so many nations has been concentrated in so few hands.

CHAPTER 8

Some Special Problems

Recently there has been renewed concern with "country loans"—i.e., loans made to a specific government or government backed entities. The first section of this chapter attempts to explain some of the reasons why so much lending by banks to countries—especially to developing countries—is seen as questionable. It is followed by a brief exploration of potential problems which could develop as a result of an increase in term lending by foreign branches of U.S. banks. Finally, the decline in capital ratios of large multinational banks is discussed.

COUNTRY LOANS

During hearings on international aid proposals for less developed countries (LDC's) in July 1955, then Secretary of the Treasury George M. Humphrey suggested that emphasis should be shifted from public financing of development programs to encouraging private flows of funds overseas.[1] Data on the distribution of branch assets by geographic region indicates, however, that there was very little lending to less developed countries before the 1970's. Perhaps it was unrealistic to suppose that encouraging private flows of funds overseas would further the cause of redistributing capital and income to these countries. In any event, the flow of funds through U.S. banks has been to the money markets and until recently, the principal users of those funds have been developed countries.

Before the 1970's the principal borrowers from U.S. bank's foreign branches were private corporations—mostly U.S. based multinationals—and foreign banks which used the funds to finance private borrowers in their domestic markets. In the early 1970's, loans to less developed countries were made in the form of direct loans to governments or central banks or loans to development institutions which carried actual or implied government guarantees.[2] Loans were also extended to developed countries to finance local government units or state-owned entities. Some of the loans to foreign banks were also a channel for government lending since funds (often in the form of deposits) were passed on for government use.

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[1] Testimony of Honorable George M. Humphrey, Secretary of the Treasury, hearings before the Committee on Banking and Currency, House of Representatives, on the International Finance Corporation, 84th Congress, 1st Session, July 11, 1955.

[2] See Chapter 1, Introduction and Chapter 2, Overseas Branches of U.S. Banks for a discussion of other events which encouraged foreign branches to make Eurocurrency loans to developing countries. Programs initiated by U.S. government agencies such as the Commodity Credit Corporation, the Foreign Credit Insurance Association and the Export-Import Bank also encouraged direct loans to foreign governments. But these were largely loans made by the parent banks in the United States with domestic funds. Because many of these loans carried a government guarantee, they were made at interest rates below the market and at rates considerably below the loans made to developing countries by the overseas branches and subsidiaries of U.S. banks.

In 1972, developed countries received $4,088 million of publicly announced Eurocurrency credit facilities while developing countries, both OPEC and non-OPEC, received $2,495 million. Both groups sharply increased their borrowings in 1973—to $13,748 million and $7,323 million respectively—thus maintaining approximately the same ratios. In 1974, developed countries borrowed $20,859 million in the Eurocurrency markets while developing countries borrowed only $7,178 million, a decline from the previous year which reflected a $2 billion drop in borrowing by OPEC countries, some of which became creditor nations rather than borrowers. In 1975, the lending pattern was sharply reversed. Developed countries borrowed only $6,760 million while less developed countries increased their credits to $11,861 million, an amount which included an increase in borrowings by OPEC countries of over $2 billion.[3] This pattern of borrowing reflects the events of the period: the need for countries to borrow dollars in terms of the requirement of some OPEC countries that oil be paid for in dollars and because of deficits in their balance of payments caused by the increase in oil prices.

The decline in total bank credits in 1975 to $20 billion (as against $29 billion in 1974)[4] was partially offset by an increase in international bond issues from $7 billion in 1974 to $18 billion in 1975.[5] The LDC's share of the Eurobond market was only 10% in 1974 and dropped to about 5% in 1975. Thus, most of the $18 billion of Eurobond issues in 1975 reflected borrowings by developed countries.

Italy and the United Kingdom were the largest borrowers of Eurocurrency bank credits among developed countries, but both countries sharply reduced their borrowings from Eurobanks in 1975.[6] Among developing countries, Brazil and Mexico have been major borrowers of Eurocurrency bank credits since 1972, and the borrowing of both rose to a high of $2,607 and $2,269 million respectively in 1975. Indonesia was also a major borrower in 1975 with total credits of $1,276 at the end of the year. Loans to Iran, another major borrower, were $722 million in 1973, $115 million in 1974 and $315 million in 1975. Japan also borrows heavily in the Eurocurrency market but most of its borrowings are short term.[7]

With the end of the Voluntary Foreign Credit Restraint Program in January 1974, it might have been expected that some of U.S. banks' lending to governments would be shifted to the home office. But banks in the United States increased term loans to foreign borrowers slightly less than $2 billion in the 18 month period from December 1973 to June 1975. As discussed in Chapter 11 below, they increased short-term loans to foreigners, mostly lending to foreign banks, and they also supplied short-term funds to their foreign branches which were used

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[3] *World Financial Markets*, Morgan Guaranty Trust Company of New York, January 1976, p. 14. The data for developed countries include the United States whose Eurocurrency borrowings totaled $865 million in 1972, $1,649 million in 1973, $2,221 million in 1974 and $745 million in 1975. The data used here are termed "publicly announced' credits. The absence of reported data has already been discussed and the figures published by Morgan Guaranty Trust Co. cannot be considered absolutely accurate.

[4] These totals include credits to Socialist countries aggregating $1,238 million in 1974 and $2,425 million in 1975.

[5] Richard A. Debs. "Petro-Dollars, LDC's and International Banks," *Monthly Review*, Federal Reserve Bank of New York, January 1976.

[6] Italy borrowed $928 million in 1972, 4,762 million in 1973 and $2.322 million in 1974. The United Kingdom's share of Eurocurrency bank credits was $689 million in 1972, $3,150 million in 1973 and $5,655 million in 1974. Italy borrowed only $95 million and U.K. borrowings were $118 million in 1975.

[7] Data provided to the Senate Subcommittee on Multinational Corporations by the Federal Reserve Board show that at year-end 1975 Japan had total outstanding claims of $7,768 million from the 21 largest U.S. banks, $5,770 million from the 6 largest. Term loans totaled $1,197 million.

to expand the branches' lending. Thus, governments of both developing and developed countries continued to rely on Eurocurrency bank credits. There was not a marked increase in U.S. domestic bank credit to foreigners other than short-term financing to foreign banks.

The problems which developing countries may face as a result of their borrowings from Eurocurrency banks can be discerned from their past experiences. In 1970 about half of their official foreign exchange receipts were being used to repay debts to official institutions which were their principal sources of credit. Aid and investments from developed countries have grown, but have fallen as a percentage of OECD countries' GNP—from 0.52% in 1960 to 0.34% in 1974—and export earnings largely from commodities and other primary products have declined.[8]

The first wave of Eurocurrency bank borrowing by less developed countries in 1972 reflected concern that the funds required for servicing existing debt left too little for further progress. It also reflected an impatience with the conditions and limitations experienced by recipients of official aid. In borrowing Eurocurrency credits at high rates, LDC's gambled that economic progress would generate the earnings needed to repay the debts. Subsequent borrowings to finance oil imports and a decline in export earnings due to the world-wide recession are a blow to such hopes. Given that the prospects for LDC's were not all that bright in 1972 and are less so now, why were Eurocurrency banks so willing to extend these credits? As one commentator has stated:

> Though it was never articulated in so many words, most bankers must also have assumed that loans lent to LDC governments would be underwritten by the official aid programmes of the developed world. No Western government had any wish to see a debtor country default, or to inflict a major loss on its own banking system.[9]

Data collected by the Federal Reserve Board for the Senate Subcommittee on Multinational Corporations provide some interesting insights into country loans of the 21 largest U.S. banks. At year-end 1975, these banks had $22,602 billion of foreign credits outstanding to third world countries and $43,778 billion to European and other developed countries—a total of $66,380 billion.[10] Two-thirds of the loans to developing countries were concentrated in the six largest banks. Loans to Mexico and Brazil accounted for one-half of all lending to developing countries.

As is true of most data involving international banking, those data are incomplete. There is no indication of the amount of lending to the private versus the public sector. However, the data do give a reasonable indication of "exposure" in that they exclude claims guaranteed by an agency of the U.S. Government[11] or by U.S. corporations.[12] But they do not separate out interbank loans in terms of the country of residence of the parent bank. Thus, the information on developed countries is not useful since data for the United Kingdom, for example, include loans to branches of German, Japanese, Italian, etc., banks located in London, and loans to branches of banks of third world countries as well.

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[8] Pierre Latour, "Euromarkets wait for LDCs' Credits to be Paid," *Euromoney*, October 1975.

[9] *Ibid.*

[10] Letter from Burns to Church, March 9, 1976, *op. cit.*

[11] See footnote 2.

[12] Thus it excludes most loans to subsidiaries of multinational corporations based in the United States.

The Federal Reserve Board staff memorandum argues that the amount of credit extended by the foreign branches of U.S. banks to third world countries is not a cause for concern. It notes that claims to Mexico and Brazil "were *each* about one and one-half percent of the total assets of the six largest U.S. banks".[13] But in relation to capital, the figures are somewhat more alarming. Loans to each of these countries total over one-third of the aggregate capital of these six banks and more than one-third of the aggregate capital of the next 6 largest banks as well, Moreover, loans to Japan by the 6 largest banks totaled 60 percent of their aggregate capital funds.

The shift in foreign branch lending from the private to the public sector has important implications for public policy. Questions relating to the likelihood of payment has tended to shift the focus on the issue of country loans to the LDCs. But the scale of bank credits to a few individual countries has been such as to indicate the need for an appraisal of the appropriateness of direct lending to governments. It may be that such an appraisal is already under way and is reflected in the drop in Eurocurrency bank credits and sharp increases in Eurobond issues by developed countries in 1975. If so, it is a welcome development in that the shift to the Eurobond market acts to distribute these debts to a larger number and wider range of creditors in the private market. The concentration of country credits in banks had a potential for forcing a too close integration of public and private interests in that, as the above quotation indicates, U.S. government policy might be disproportionately shaped by the need to protect the U.S. banking system from a major default by a given country.

TABLE 1.—CLAIMS OF 21 U.S. BANKS ON RESIDENTS OF SELECTED FOREIGN COUNTRIES AS OF DEC. 31, 1975

[In millions of dollars]

	Total	Third world	European and other developed countries	Maturing in 1 yr or less: Amount	Maturing in 1 yr or less: Percent of total	Maturing in more than 1 yr: Amount	Maturing in more than 1 yr: Percent of total
Group 1: (6 largest banks)	$43,388	$14,533	$28,855	$30,467	70.2	$12,921	29.8
Group 2: (2d 6 largest banks)	12,998	4,864	8,134	8,936	68.7	4,062	31.2
Group 3: (9 other banks)	9,994	3,205	6,789	7,614	76.1	2,380	23.8
Total	66,380	22,602	43,778	47,017	70.8	19,363	29.1

Note: The data exclude claims of United States banks and their branches and subsidiaries on the foreign branches of other United States banks, but include claims on United Kingdom branches of non-United States banks, including banks with head offices in third countries.

Source: Federal Reserve Board: Information collected for the Honorable Frank Church, Chairman of the Subcommittee on Multinational Corporations; Committee on Foreign Relations, U.S. Senate.

TERM LENDING

At year-end 1971, the foreign branches of U.S. banks had $5.5 billion of term loans outstanding to foreign borrowers.[14] This was about 8% of the total assets of the branches. By December 31, 1975 the term loans of the foreign branches of the 21 largest banks had risen to $19.4 billion or 29% of total branch assets.[15] By comparison,

[13] Letter from Burns to Church, *op. cit.* Emphasis supplied. The total to Brazil for these six banks was $3.7 billion ; $3.6 billion to Mexico.
[14] Henry S. Terrell, "The Foreign Term-Lending Activities of U.S. Banks", Discussion Paper No. 23, February 2, 1973, Federal Reserve Board.
[15] Letter from Burns to Church, *op. cit.*
Term loans are defined as claims maturing in 1 year or more.

the 160 weekly reporting banks in the United States held $47 billion of domestic term loans on the same date, or about 14% of their total domestic assets.[16] Term loans to foreigners extended by foreign branches aggregate about 5% of parent bank assets—domestic and foreign—for the 21 largest banks and 9% of total loans. The aggregate amount of term loans is in excess of their combined capital of $15.5 billion.[17]

In view of the short maturities of their liabilities and the absence of a reasonable ratio of stable deposits provided by private non-bank individuals and companies as discussed elsewhere, the foreign branches of these banks appear to have gone beyond reasonable limits in extending term credits. Data collected by the Federal Reserve Board for the Senate Subcommittee on Multinational Corporations reveal that 45% of the liabilities of these branches to foreigners are payable in less than 30 days. The data do not indicate the average maturity of liabilities payable in more than 30 days but one can assume that the bulk is less than 90 days. The data also do not indicate the average maturity of long-term claims. But the average maturity of loans in Franklin's foreign portfolio was 5½ years and that appears to be fairly typical.

Another major gap in the data relates to the absence of information on borrowers of term loans of U.S. banks. While the breakdown by country is important new information, there is no indication of whether borrowing attributed to a given country represents loans to the public sector, the private sector or to subsidiaries of multinational corporations. Identification of the business of borrowers is helpful in assessing risk and evaluating the social benefits of the extension of credit. Presumably, a substantial proportion of the term loans of U.S. banks were made to assist countries in handling balance of payments problems caused by the increase in oil prices. Although these loans entailed risk, some think they were very beneficial—that it was fortunate a mechanism was available to provide funds to ease a crisis which could have caused severe economic and political problems for several countries. But if public policy considerations are advanced as justification for questionable banking practice, then disclosure and public discussion of the merits of the issue are the more imperative.

The data on term loans of foreign branches provided by the Board also do not distinguish between loans denominated in dollars and in foreign currencies. As discussed elsewhere, aggregate data on branch activity indicates that about 30% of total foreign branch assets are nondollar assets, but there is as yet no information on amounts in various other currencies. Term lending in currencies other than dollars may cause exchange rate risks for U.S. banks if exchange rates shift significantly over the term of the loan. Hedging with contracts to buy and sell foreign exchange is a way of eliminating this risk but, currently, futures contracts do not extend beyond a maximum of 18 months and loans that are extended for longer periods cannot be hedged. Futures contracts are not extended beyond 18 months for the obvious reason that it is difficult to predict exchange rate movements over a longer period and the likelihood of movements up or down is very real.

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[16] *Federal Reserve Bulletin*, February 1976, Table A23.
[17] See Table 2 below.

The acknowledgement of the need for this limitation in foreign exchange markets underscores the inherent risks to borrowers and lenders with regard to term claims in external currencies.[18]

If exchange rates for a given currency appreciate, the bank which has extended a term loan may take a loss since it must roll over the shorter-term foreign currency liabilities which support these loans. If rates depreciate, the loss will be sustained by the borrower. This is an important factor determining the response of central banks to exchange rate movements. The size of the external debt denominated in dollars of countries such as England, Italy, Brazil and Mexico has undoubtedly made it more difficult for these countries to accept exchange rate depreciation.

As its exchange rate falls, a country may earn more foreign exchange from increased exports, a development which is helpful in managing international payments deficits. But at the same time, the ratio of external debt to domestic income has increased, as has the cost of servicing the debt. This could compound the political and economic problems of the country involved and contribute to a further devaluation of its currency, thus threatening its ability to repay the loan. A country's inability to repay some or all of its external debt would have serious repercussions regardless of who the lender or lenders might be. But, as discussed above, the repercussions are more serious if the lenders are banks.

In making long-term loans, foreign branches of U.S. banks protect themselves in part by lending at floating interest rates, i.e., rates which are tied to the cost of interbank funds in London.[19] This prevents the banks from being caught during a period of rising interest rates with assets which yield a low rate while the short-term liabilities which support them are being rolled over at increasingly higher rates, raising costs and lowering profits. Floating rates insure that some of the risk in such a situation is shared by the borrower. But, recognizing that shifting to the borrower the risk of rising costs and lower profits may result in failure to repay the loan, floating rate loans are frequently negotiated with "caps", i.e., a fixed ceiling on the rate that can be charged. Even so, there is no guarantee that over the life of a term loan market rates will not rise above the "cap" or that the loan will be repaid.

Much of the short-term lending of commercial banks in reality is based on long-term extensions of credit—i.e., short-term claims which are rolled over at maturity every 3 months or so on a regular basis for many years although both the borrower and the lender have the option of not renewing the loan. But, it appears in practice that there is little difference in short- and long-term lending if floating rates are imposed on long-term credits other than the "fixed" maturity of term loans. The borrower benefits by having greater certainty concerning loan maturity as well as greater flexibility in repayment schedules and by obtaining a so-called "grace period" of a year or more during which no payments on principal or interest are required. But for the

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[18] External currencies are those which must be exchanged to be used. Private foreign borrowers of Eurodollars must exchange them into their domestic currencies in order to make domestic payments. Large capital transfers and certain international payments are made in dollars and do not require that the proceeds of Eurodollars loans be exchanged for other currencies. However, borrowers of Eurodollars may have to exchange their domestic currency into dollars in order to repay the loan. In that case also the exchange rate is a factor. It is easy to see why stable exchange rates are so important to countries whose residents and governments have contracted substantial debts denominated in dollars.

[19] This is termed the London interbank offer rate (LIBO).

bank, the option not to renew a short-term loan during a liquidity crisis is an obvious advantage. And in the Eurocurrency market, short-term credits are preferable when the loan is denominated in a currency which is not the national currency of the borrower or of the lender because the exchange rate risk can be eliminated by hedging.

As discussed in a previous section, the foreign branches of U.S. banks experienced a substantial drop in interbank liabilities in the summer of 1974 and were unable to liquidate assets quickly enough to match the outflow. An inflow of funds from OPEC countries helped make up for part of the drain, but most of the outflow was offset by funds supplied by the parent banks. The amounts and ratios of long-term claims extended by the foreign branches at that time are not known. It is not likely, however, that the amount was greater than that revealed in the data supplied by the Federal Reserve Board to the Senate Subcommittee on Multinational Corporations.

Substantial infusions of funds from the parent banks in 1974 attest to the highly illiquid condition of foreign branches at that time. Given the current level of term lending, it would be even more difficult now for U.S. banks to provide liquidity to their foreign branches should another crisis occur. One assumes that efforts are being made by U.S. banks and regulators to reduce the volume of long-term claims and bolster the liquidity of foreign branches. But it would also be useful if regulators were to consider what are appropriate levels for term lending, whether liquidity ratios are adequate and what type of assets will provide liquidity in a crisis such as the one that occurred in 1974.

CAPITAL ADEQUACY

Capital provides a margin of safety for the creditors of an institution in the event that it fails. In the case of a bank, most creditors are depositors and are protected at least to some degree by deposit insurance. But, as discussed in the section on the role of the Federal Reserve as lender of last resort, large banks have large amounts of uninsured deposits and other uninsured liabilities. Presumably these banks should have higher capital ratios than banks whose sources of funds are primarily insured deposits. Their creditors—mostly other banks and other commercial and financial companies—would benefit from the additional margin of safety. But, as table 1 indicates, the ratio of capital to assets of the 20 largest multi-national banks is very low. The aggregate average for this particular group of banks is only 4.1 percent.

A paper prepared for this compendium by Professor Donald D. Hester [20] analyzes the role of bank capital and its decline since 1960. Ratios submitted by Dr. Hester show that capital to total domestic and foreign assets for all banks has declined from 8.8% in 1960 to 6.4% in 1974. But the decline has been greatest for banks with over $5 billion of assets. Their average ratio dropped from 8.7% in 1960—when it was higher than for all banks except those in the $1 billion to $5 billion category—to 4.6% in 1974. Banks in the next size category ($1 billion to $5 billion) show a decline from 9.6% to 6.4% over the

[20] "Opportunity and Responsibility in a Financial Institution," by Donald D. Hester.

same period, while the average ratio for banks with assets of $500 million to $1 billion has dropped from 8.7% to 7.1%. Banks with assets under $500 million, and with liabilities which consist primarily of insured deposits, also show a drop in their average ratio of capital to assets but the decline—from 8.3% to 7.7%—is less than for other, larger banks.

In evaluating the margin of safety provided by the capital of banks in any category, it is useful to know the average amount of uninsured liabilities. In the case of the 20 multinational banks included in the table here, all the liabilities in their overseas branches are uninsured and the average aggregate ratio of foreign branch liabilities to total liabilities is 33%. The amount of domestic deposits which are uninsured is more difficult to calculate since it involves federal funds borrowings, securities repurchase agreements, large money market certificates of deposit and demand and time accounts with balances over the $40,000 insured maximum. A conservative estimate indicates that the uninsured liabilities of these 20 banks are in excess of 50% of total liabilities and probably over two-thirds of total liabilities for the largest banks.

The margin of safety which the capital of these banks provides for creditors is therefore quite slim. In the event of a failure of one of these banks, owners of uninsured liabilities would not be paid off immediately as are insured depositors but would have to wait until the bank's assets were liquidated. As discussed above, a sizable portion of the assets of these banks are not liquid. Therefore the amount of time required would be considerable and the burden on creditors, especially other banks, would be intolerable. The alternative in handling the failure of such an institution is to use the central bank as lender of last resort to bail out uninsured creditors. As discussed below, this was the method used in coping with Franklin. It resulted in the Federal Deposit Insurance Corporation assuming responsibility for repaying the Federal Reserve for the uninsured liabilities the Fed had paid.

But there are uses for bank capital other than as a margin of safety for creditors in the event of a failure. Capital provides a cushion for the bank at all times. In the event of a recession or if the bank is a victim of fraud, the capital funds of the bank permit it to sustain losses and avoid a failure. Since banks do sustain losses due to economic and other factors beyond their control, a high ratio of capital means that they can weather such difficulties with a minimum of strain.

Capital ratios are also used as the basis for legal limits on loans to one borrower and are used by examiners to determine the exposure of banks in lending to a single industry or country and to assess the condition of a bank in relation to its criticized loans. While total assets or risk assets could also be used as a measure, the use of capital is related to its function as a margin of safety.

The function of capital in providing a cushion of safety for both the bank and its creditors has been reemphasized lately and there appears to be general agreement that banks need to increase their capital ratios. What the ideal ratio should be has not been agreed upon and perhaps never can be. Nevertheless, more thought and attention should be given by the bank regulators to the relationship between capital ratios and the amount of uninsured liabilities of banks as well as the more traditional measures of liquidity involving the management of assets and loan portfolios.

TABLE 2.—DOMESTIC AND FOREIGN BRANCH ASSETS/LIABILITIES OF 20 MULTINATIONAL BANKS [1], DEC. 31, 1974

Name of bank	Total domestic assets	Foreign branch assets	Total foreign and domestic assets	Total capital accounts	Capital/total assets (percent)	Capital/domestic assets (percent)	Foreign branch assets/total (percent)
Bank of America N.T. & S.A	$36,491,892,841	$20,422,419,000	$56,914,311,841	$1,913,572,074	3.4	5.2	35.9
First National City	28,870,546,193	29,887,570,000	58,758,116,193	2,206,276,948	3.8	7.6	50.9
Chase Manhattan	27,299,311,341	15,561,981,000	42,861,292,141	1,839,041,254	4.3	6.7	36.3
Manufacturers Hanover Trust	18,918,374,391	6,720,964,000	25,639,338,391	1,005,765,401	3.9	5.3	26.2
Morgan Guaranty Trust Co	16,241,309,207	9,322,845,000	25,564,154,207	1,281,278,710	5.0	7.9	36.5
Chemical Bank	15,344,787,774	7,358,704,000	22,703,491,774	949,951,051	4.2	6.2	32.4
Continental Illinois National Bank	14,243,378,984	4,350,271,000	18,593,649,984	778,505,911	4.2	5.5	23.4
First National Bank of Chicago	13,028,466,780	6,321,063,000	19,176,752,780	680,337,108	3.5	5.2	33.0
Security Pacific National Bank	12,936,676,094	2,662,247,000	15,598,923,094	634,832,120	4.1	4.9	17.1
Bankers Trust Co	12,923,655,583	6,148,286,000	19,071,941,583	733,927,100	3.8	5.7	32.2
Wells Fargo Bank	10,658,110,141	1,945,071,000	12,603,181,141	514,857,657	4.1	4.8	15.4
Crocker National Bank	8,716,866,442	1,633,030,000	10,349,896,442	366,946,151	3.5	4.2	15.8
United California Bank	7,539,816,701	1,947,205,000	9,487,021,701	416,729,417	4.4	5.5	20.5
Mellon Bank N.A	7,388,639,779	2,250,841,000	9,639,480,779	554,284,283	5.8	7.5	23.4
Irving Trust Co	7,178,727,879	2,762,023,000	9,940,750,879	340,162,444	3.4	4.7	27.8
National Bank of Detroit	6,375,073,551	1,286,391,000	7,661,464,551	463,857,077	6.1	7.3	16.8
First National Bank of Boston	5,453,687,450	2,953,541,000	8,407,228,450	425,391,550	5.1	7.8	35.1
Marine Midland Bank	4,490,727,302	2,645,093,000	7,135,820,302	201,967,766	2.8	4.5	37.1
Seattle First National Bank	4,263,463,955	361,977,000	4,625,440,955	198,843,786	4.3	4.7	7.8
First National Bank in Dallas	3,013,660,494	1,229,130,000	4,242,790,494	217,770,657	5.1	7.2	29.0
Total/average—all banks [2]	[3] 261,377,175,000	[4] 127,770,652,000	[5] 389,147,827,000	15,274,296,000	4.1	5.8	32.9

[1] The 20 banks listed above have branches in 3 or more countries. Assets of Edge Act and overseas subsidiaries are not included.
[2] Totals may not add due to rounding.
[3] This figure is approximately 30 percent of total domestic assets of all insured commercial banks in the United States.
[4] This figure is approximately 84.2 percent of total foreign branch assets of U.S. banks.
[5] This figure is approximately 36.3 percent of total domestic and foreign branch assets of all insured commercial banks in the United States.

Source: Federal Reserve Board, compiled by committee staff.

CHAPTER 9

The Role of the Lender of Last Resort in International Banking

Foreign branches of U.S. banks are no different from domestic branches in terms of their dependence on the parent bank. Since they are not separately capitalized, the parent bank must provide additional resources in the event of a liquidity crisis. When such a crisis does occur, the parent bank may have to turn to the Federal Reserve to supply the needed liquidity to pass on to the branch. This is what occurred when the announcement of foreign exchange losses by Franklin National Bank in May 1974 caused an outflow of its liabilities. The experience of Franklin over the subsequent months provides significant insights into the role of a central bank as a lender of last resort when a large multi-national bank undergoes such a crisis.

Franklin's international activities were an important part of its overall business. At year-end 1973 $1,136 million or 30% of its total deposits were in the London and Nassau branches. Between May 8 and October 8, 1974, there was an outflow of $679 million from the branches which was 33% of the total outflow of $2,822 million. The decline in Franklin's liabilities occurred very quickly. About 55% of total withdrawals were made between May 8 and June 30, 1974. During this initial period the bank lost $545 million of domestic interbank funds, $322 million of large money market certificates of deposit, $504 million of domestic demand deposits and $393 million foreign branch deposits. Smaller amounts in other categories accounted for the remainder of the total of $1,963 million which was lost by the end of June.

In a letter responding to questions submitted by Congressman Reuss, Arthur Burns commented that "Franklin did not have available sufficient liquid assets to fully offset its loss of funds." [1] The bank's problem is illustrated by its municipal security holdings. Even if it had been possible to sell the securities, the bank would have taken a substantial loss given current market values.[2] But they could not be sold since they were pledged as collateral for public deposits and had to be held by the bank by law. A similar problem was caused by Franklin's heavy reliance on securities repurchase agreements. The bank's holdings of government securities—usually classed as a highly liquid asset and one which is readily sold in such a situation—could not be disposed of because they, like the municipals, were pledged to secure existing liabilities. Therefore, they could not be used to offset withdrawals of demand deposits or other outflows.

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[1] Letter of February 5, 1975 included in the record of hearings before the Joint Economic Committee, "Financial and Capacity Needs," October 10, 1974. This letter and Reports by Chairman Frank Wille on the administration of the Franklin National Bank receivership by the Federal Deposit Insurance Corp. provide most of the data used above on Franklin National Bank.

[2] On August 27, 1974, the depreciation of Franklin's securities portfolio (book less market value) was $127,350,138, a substantial portion of the bank's $188,117,950 of capital funds.

Franklin's liquidity problems were also compounded by the fact that it was heavily dependent on liabilities derived from both the domestic and international interbank market, the great bulk of which were overnight loans. Some $1.1 billion of deposits in the London and Nassau branches were deposits of other banks; half of them—15% of the bank's total deposits—were liabilities to the foreign branches of other U.S. banks. In March 1974 the bank's registration statement filed with the SEC indicated that purchases of Federal funds the previous year averaged $750 million daily. On the asset side, Franklin reported balances with other banks aggregating approximately $600 million.

Between May and October, $1,389 million of foreign and domestic interbank liabilities were withdrawn from the bank. This amount was almost half (49.2%) of the total outflow. But the interbank market yielded an inflow of only $198 million as foreign branch placements with other banks matured. This was only 20% of the total inflow of $1.1 billion of funds raised by liquidating or otherwise disposing of assets to offset the $2.8 billion outflow which occurred during the summer and early fall. The remainder was made up by borrowings from the Fed's discount window.

Had Franklin withdrawn all its balances with other banks, it would have precipitated an even more rapid withdrawal of interbank liabilities than did occur and would have intensified its problem. Thus, it appears that just as Franklin's municipal securities secured public deposits and its Treasury notes and bills secured repurchase agreements, balances with other banks acted in effect as collateral for borrowings from other banks, and, as indicated below, as collateral for the bank's borrowings from the Federal Reserve Bank of New York. It may be that the interbank market serves as a sure source of additional liquidity only in a period of expansion, when confidence in individual banks and the banking system as a whole is high. As Franklin's experience and that of most foreign branches of U.S. banks in the same period indicates, its usefulness in a liquidity crisis—individual or collective—is very limited.

As described in Chapter 1, total foreign branch liabilities to nonrelated banks shrank 11% or $8 billion between May and September 1974. Some of this was due to withdrawals of dollar balances by banks for lending in their own domestic markets for oil payments. But the fact that banks chose to withdraw funds from the interbank market rather than borrow additional funds for lending reflects their lack of confidence in the market. The scale of withdrawals over such a short period, and the timing—coincidental with Franklin's announcement of foreign exchange losses—suggest also that the decline in the interbank market reflected lack of confidence in individual banks and the international banking system. The response to the crisis was such that the interbank market helped drain rather than supply liquidity to the banking system.

Franklin's borrowings from the Federal Reserve Bank of New York climbed to $1.7 billion on September 27. Collateral pledged against this loan aggregated $2.6 billion and included $617 million of assets supplied by the foreign branches.[3] Federal Reserve Board Governor Holland testified subsequently that one of the fears of

[3] The collateral consisted of $515 in foreign loans and $102 million of placements with other banks.

the regulators was that Franklin would run out of collateral acceptable for discount before the matter of the disposition of the bank was settled; that it had in fact run up against its limit.[4] The foreign branch assets were 24% of total collateral. Had they not been included, the bank would have reached its limit much earlier.

Problems involving physical custody arise when foreign branch assets are used as collateral at the Federal Reserve discount window. While assets of the Nassau branch are available at the home office, London assets apparently were held in custody for the New York Bank by the Bank of England. It is possible that had the branch been located in a country with bank secrecy laws or where an unfriendly central bank could either block the export of assets or refuse to act as custodian, branch assets could not be used as collateral with the Federal Reserve Bank even though the outflow of branch liabilities was large enough to threaten other parts of the parent network and exhaust the supply of assets available for discount.

The role of a lender of last resort to a major multinational bank involves more than merely extending the discount privilege to the limits of acceptable collateral. The Federal Reserve Bank of New York played an active and critical part in helping Franklin execute its foreign exchange contracts. Chairman Burns noted that the Federal Reserve Bank of New York had purchased currency on Franklin's behalf on a spot basis from late May through September because it "recognized the importance of the contracts being properly honored." [5] Franklin had found it virtually impossible to buy foreign exchange from other banks in order to fulfill its maturing contracts. With the failure of Herstatt its problems were compounded. It is not known what the bank's original foreign exchange position was on May 8. Examination reports indicated that outstanding contracts aggregated approximately $4 billion at year-end 1973 and $1.9 billion on August 14, 1974. By September 24, 1974, Franklin's problems in meeting its foreign exchange commitments were totally out of hand and its contracts were assumed by the New York Reserve Bank. At that time there were 300 outstanding contracts totalling $725 million with maturities through August 1975. The New York Bank calculated that its risk in executing these contracts was about $15 million based on the book loss on Franklin's total position, its estimates of the risk of counterparties failing to perform contracts and certain other risks not specified.

The significance of foreign exchange contracts in such a situation is described in the following quotation from Chairman Burns' letter to Mr. Reuss:

> Even under the best monetary conditions, failure of Franklin to perform on such a volume of international commitments would have undermined confidence in the foreign exchange market and tarnished the reputation of United States banks in general. In the circumstances prevailing at the time, however, the situation was even more delicate. In particular, the failure of Germany's Herstatt Bank to honor its current foreign exchange commitments upon its closing had had a shock effect on the market, and had sparked wider questions about the German banking system. The result was a precautionary movement of funds out of Germany which contributed to a decided weakening of the German market.

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[4] Testimony of Hon. Robert C. Holland, *Bank Failures, Regulatory Reform, Financial Privacy*, Hearings before the Subcommittee on Supervision, Regulation and Insurance of the House Committee on Banking, Currency and Housing, July 16, 1975.

[5] Letter from Burns to Reuss, *op. cit.*

These considerations were carefully weighed as Franklin's status came under review in early fall. In considering the possible take-over of Franklin by another bank, it became evident that potential purchasers of its assets and liabilities would not be willing to include the Franklin exchange book in the package. In the event of a take-over which did not include the foreign exchange book, there was a distinct possibility that the foreign exchange contracts would not have been performed. By the same token, foreign counterparties to Franklin contracts would probably not have performed.

We therefore faced the risk that $725 million of Franklin forward exchange contracts would be dishonored, with serious consequences for market confidence. In the Herstatt case, the mark had suffered. We feared similar damaging effects upon the dollar if the Franklin contracts were dishonored. It was therefore concluded that the New York Reserve Bank's assumption of Franklin's foreign exchange position would be in the best interests of the United States and the world economy as well as the foreign exchange market. The subsequent acquisition of the book by the New York Reserve Bank was greeted with relief by market participants both in this country and abroad. Indeed, subsequent news or Franklin's insolvency was taken in stride by the market with no adverse impact on the dollar.[6]

The implications of the above views should also be considered in assessing the significance of the amount of assets and liabilities of foreign branches denominated in currencies other than U.S. dollars. This was not a major problem for the Federal Reserve in assisting Franklin National Bank but it could become a factor should another multinational bank need assistance. As Table 1 Chapter 1 indicates, the proportion of branch assets and liabilities payable in other currencies has at various times been as high as 35% of total assets/liabilities of all U.S. banks' foreign branches. In December 1974 amounts payable in other currencies had declined to about 30% because of the resurgence of the dollar as the key currency in international financial markets as a result of OPEC preferences for payments in dollars. But as long as there is a significant amount of funds not payable in the national currency, the implications for a central bank in its role as lender of last resort are somewhat complicated. A 1972 Federal Reserve study took note of this problem and of the fact that it is unlikely that foreign central banks would be willing to provide their currencies to branches of U.S. banks during exchange market crises. Therefore, it might be necessary for the Federal Reserve to provide foreign exchange to meet demands for payment of non-dollar liabilities.

A problem which was pointed up as a result of the faulure of Franklin concerns the relationship between the proportion of bank assets which are not insured and the options available in handling potential failures. As Chairman Burns noted, all major banks "depend to a large extent on uninsured deposits for their operations." [7] Franklin had a total of $1,498.4 million of uninsured deposits as of June 7, 1974. Had Franklin been put into receivership in May of 1974, all its uninsured deposits—including foreign deposits, aggregating approximately 41% of the total and other liabilities—would have become liabilities of the receivership. A different problem would have arisen had a conservator been appointed for the bank.[8] Since the FDIC would have served as conservator, it would have had to meet demands for payment of uninsured deposits by making payments out of the

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[6] *Ibid.*

[7] *Ibid.*

[8] A receiver is appointed when a bank is closed. A conservator takes over management of a bank which is not then closed.

insurance fund. Thus, it is possible that insuring large multinational banks with a substantial portion of uninsured liabilities only serves to jeopardize the insurance fund rather than protect deposits.

But problems which have arisen since Franklin's remaining liabilities were purchased by European-American Bank and Trust Co. in October 1974 also point up further difficulties involved when large multinational banks fail. European-American rejected all $585 million of Franklin's foreign branch loans. These loans are now held by the FDIC as receiver for the $2.2 billion of Franklin assets which were not assumed by European-American. Whether or not the FDIC will encounter any special difficulties in collecting these loans is not easy to predict at this point. They carry an average maturity of 5½ years—more than twice the maturity of the $700 million of domestic commercial loans, but not as long-term as the municipal securities or the real estate loans which the FDIC must administer.[9]

CONCLUSION

Many of the issues discussed above were related to the decision by regulatory authorities not to close Franklin but rather to go as far as possible in providing funds through the discount window. Dr. Burns pointed out that the options of putting the bank into receivership or appointing a conservator were not available. He also argued that Franklin's closing would have "caused other bank failures" which would have resulted in "large losses to the Federal Deposit Insurance Corporation."[10] This assessment is supported by the fact that, as noted above, approximately 49% of the total outflows were bank-related liabilities. In addition, the substantial volume of foreign exchange contracts were also bank related. A conservative estimate indicates that Franklin's direct and contingent liabilities to other banks were in excess of $5 billion in May 1974. Failure to meet interbank liabilities of this magnitude clearly could have caused other bank failures and might had been enough impact to unleash the domino reaction so widely feared at the time.

Franklin's failure has triggered responses from regulators and Congress in favor of regulatory reform. The financial press has explored the implications of the possibility that large banks cannot be allowed to fail. So far, no compelling solutions have been put forward for the problem of managing the failure of a large multinational bank without damage to financial markets or to existing restraints on banking concentration. The certainty that preceded Franklin—that deposit insurance had resolved the threat of wide-spread bank failures caused by loss of confidence—has not been regained. Perhaps the one thing that did succeed in the Franklin failure—the efforts of the Federal Reserve as lender of last resort—will come to replace insurance as the bedrock of confidence in the banking system. If so, there will be a need for awareness that this will effect profound changes in the banking system and the way it is regulated.

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[9] The FDIC is administering $290 million of Franklin's municipal securities with an average maturity of 18 years and $200 million of real estate loans with an average maturity of 14 years.

[10] Letter from Burns to Reuss, *op. cit.*

CHAPTER 10

Some Effects of the Foreign Lending Activities of U.S. Banks

The activities of national banking systems in domestic markets are greatly influenced by the monetary policy context in which they operate. The same is true for international banks except that establishing the policy context which shapes their responses is somewhat more complicated. There is no central governmental authority in international financial markets which establishes monetary and credit policies, imposes monetary policy variables such as reserve requirements, interest rate limitations or limitations on assets and liabilities, or, through its own actions, influences the availability of credit. The impact of the actions of a number of central banks have helped shape the Eurodollar market. But most of these actions have been concerned with protecting domestic monetary policies from being undermined by the opportunities for borrowing and depositing in an external banking market rather than devising policies which relate to the external market itself.

The indifference of governments to the Eurocurrency market *per se* has undoubtedly contributed to its growth. No major efforts have been made to curb it. In fact, the exchange controls which governments have used to insulate national financial markets have had some built-in encouragements. As noted earlier, the institution of the Voluntary Foreign Credit Restraint and the Foreign Direct Investment Programs by the United States were undertaken with the understanding by all that U.S. banks would continue to serve existing foreign customers—especially U.S. multinational corporations—through foreign branches and subsidiaries which would obtain the funds overseas. It was thought that this strategem would allow the realization of two seemingly contradictory objectives—the continued expansion of U.S. corporations overseas with credit supplied by U.S. banks without adverse impact on the U.S. balance of payments. This, as noted, provided a major impetus for the expansion of the Eurodollar market.

But there were other actions by central banks which also assisted in developing this external banking market and influenced the shape of its activities. The German central bank, wrestling with the problem of managing capital inflows in the late 1960's and up to the inauguration of floating rates in 1973, imposed among other restrictions one which prohibited the payment of interest on foreign deposits. But short-term loans from banks outside Germany were exempt from this restriction. This provided one of the avenues used in speculative crises which resulted in the revaluation of the Deutschemark in 1969 and the devaluation of the dollar in 1971 and 1973. Speculators could borrow Euro-dollars from the foreign branch of a U.S. bank, exchange them for Deutschemarks and then repay the loan with cheaper dollars if and when the value of the dollar declined. Transfers of accounts which did not involve a flow of funds could also be arranged.

A Eurodollar bank could serve a customer who could not get funds into a country by acquiring a deposit in the domestic interbank market and trading the balance. Or it could loan funds to a domestic bank and accommodate a customer who could not get funds out, trading a domestic balance for an external balance.

The Swiss dealt with the same problem using a variation on the same tool. They imposed a marginal reserve requirement of 100% on increases in liabilities to nonresidents in both foreign currencies and Swiss francs. But the marginal requirement did not apply if the increase in nonresident deposits was offset by assets in foreign currencies or in Swiss francs that were lent abroad.[1] The Swiss banks had a very strong incentive to loan funds to the external market since it enabled them to continue to attract the nonresident deposits without which their business would shrink to the size of their relatively small national economy. Thus, the actions taken by these and other governments in efforts to insulate their economies helped create additional demand for and supply of funds in international markets.

In the United States, the Voluntary Foreign Credit Restraint Program was inaugurated in February, 1965 as part of an effort to end the chronic deficit in the U.S. balance of payments. The amount of bank credit to foreigners more than doubled between 1960 and 1964—from $4.2 billion to $9.4 billion. Lower interest rates in the United States and the availability of credit favored foreign borrowing here from a widening group of U.S. banks. Assets of overseas branches also doubled during this period and the number of Edge and Agreement corporations more than doubled as U.S. banks found funds readily available to expand their international operations.

An earlier effort to dampen the flow of funds overseas by imposing a tax on foreign securities to make them competitive with U.S. securities had altered the character of borrowing by developed countries. The imposition of the VFCR guidelines regulating further increases in credit extended by U.S. banks overseas was accompanied by an amendment to the Interest Equalization Tax legislation which raised the cost of non-export term-loans to foreign borrowers in the developed countries by about 1 percent. As the thrust of the IET amendment indicates, there was not only a precipitous growth in foreign credits held by banks in the United States, but also major changes in the nature of these credits.[2]

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[1] A similar relaxation of Voluntary Foreign Credit Restraint Guidelines was made for so-called Delaware Corporations by the Federal Reserve Board.

[2] A Federal Reserve Board study, written in 1968 states:

"the foreign lending undertaken by banks even as late as the mid-1950's and the credits then outstanding were largely associated with the financing of U.S. foreign trade . . .

"Diversification of foreign lending by U.S. banks in the early 1960's involved extensions of credit in more countries to a more heterogenous collection of borrowers, at more flexible and varied terms, and for more different purposes. An increasing proportion of the credits extended were for financing of trade among foreign countries, the refinancing of foreign commercial banks, and in the longer-term area, the financing of development projects by foreign governments and the provision of funds for working capital and capital expenditure purposes to major business corporations abroad."

Data presented in the Federal Reserve study indicate that Latin American credits, which had traditionally been the major component in U.S. banks foreign loan portfolios and reflected U.S.-Latin American trade relationships, shrank from 50 percent of total foreign credits in 1955 to 30 percent in 1965; that more than 40 percent of all foreign credits at the end of 1965 were long-term loans; and constituted an even higher percentage of outstanding credits to borrowers in Europe and Australia; direct loans to U.S. affiliates accounted for a very small percentage of credits extended prior to 1965. Before that date the majority of their needs for financing were met from parent company resources. About half of all foreign credits in the mid-60's were extended to banks, a substantial portion of which represented refinance credits used to support their overall operations; and that growth in the total of foreign credits extended had been "dominated by the phenomenal increase, both proportionately and absolutely, in Japanese borrowings." By 1968 Japanese borrowings accounted for about one-fourth of all foreign credits outstanding, "with the result that, balance-of-payment constraints aside, the overall volume of foreign lending hinges to an important degree on the ebb and flow of Japanese credit demands," "The International Operations of U.S. Banks," Division of Supervision and Regulation, Board of Governors of the Federal Reserve System, 1968, pp. I-5, 11-5, 8.

To a certain extent the actions taken in 1965 were successful. Banks stayed within their guidelines and long-term lending to foreigners declined although funds which were available for foreign lending were largely preempted by developed countries. But the deficit in the balance of payments continued and further controls were imposed in 1968 in the form of guidelines administered by the Department of Commerce on the amount of funds which could be extended by U.S. multinational corporations to their overseas subsidiaries. Meanwhile, drastically tightened money conditions also limited the amount of funds available for overseas lending by banks. In fact, those banks which had established overseas branches became net borrowers from their branches, exploiting the increasingly important Eurodollar market to meet the demands of domestic customers.

Funds flow to and from external and domestic banking markets for several reasons. When interest rates shift in either market, banks engage in arbitrage. That is, they act to take advantage of the shift to maximize their profits by minimizing costs. If interest rates in the Eurodollar market move above domestic rates, they will increase their Eurodollar assets, loaning cheaper, domestic deposits to the external market. If interest rates in the Eurodollar market move below domestic rates, banks will increase their Eurodollar liabilities, borrowing the cheaper funds from the external market for lending at the higher, domestic rate. When the flow of funds becomes large enough, the difference in the rates disappears.

Another reason for flows of funds is a change in monetary policy variables which in the United States is primarily reserve requirements Reserve requirements act as a tax on deposits which increase their cost. If the requirement is raised or lowered, it changes the cost of funds in the domestic market and produces an incentive for banks to lend to or borrow from the external market much as does a shift in interest rates. The Federal Reserve Board set reserve requirements on Eurodollars to raise their cost above that of large negotiable certificates of deposits since that is the class of liabilities which Eurodollars replace. In 1969, there were no reserve requirements on Eurodollars and large CD's were subject to Regulation Q ceilings on interest payments. These ceilings have since been removed and the reserve requirement imposed to discourage the use of Eurodollars on a regular basis as a substitute for CD's.

A rise or fall in domestic loan demand also creates incentives for banks to borrow from or lend to the external market. While changes in loan demand are usually accompanied by an appropriate shift in interest rates, this may not always be the case. A given monetary policy goal may require a rise or fall in interest rates regardless of loan demand. For example, the Federal Reserve acted to increase interest rates during the early years of the depression despite the need to stimulate loan demand because it wanted to halt the outflows of gold. On the other hand, not every increase or decrease in interest rates will produce a decrease or increase in external lending by U.S. banks. If there are no major shifts in credit demand in the United States, U.S. banks will continue to lend to domestic customers.

It is possible that changes in loan demand are a stronger reason for borrowing from or lending to the external market than shifts in interest rates or reserve requirements. At least, it would appear to be so in the United States, especially where flows between the U.S. parent

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bank and its overseas branches are concerned. In 1969, U.S. banks responded to the Federal Reserve's restrictive monetary policy by borrowing approximately 14 billion Eurodollars from their foreign branches. The demand for these funds caused massive outflows from European countries. By the time they arrived in the United States as deposits, the cost of attracting them out of various overseas domestic markets made them very expensive. Some of the interest expense was offset, however, by the fact that they were not subject to reserve requirements. Still, they were not cheaper than domestic U.S. funds but because they were not subject to domestic rate ceilings under regulation Q, they were more available and there were borrowers willing to pay the price.

The Federal Reserve responded by imposing a 10% marginal reserve requirement on additional Eurodollar borrowings by U.S. banks from their parent banks.[3] By levying reserves on the increment over a base level, the Fed encouraged the banks to pay back the borrowings gradually. An outflow of the magnitude shown in Chart I as occurring over an 18 month interval could have had very damaging effects on financial markets had it occurred in the three to six month period which reflected the maximum maturity of most of the funds borrowed.

The results were mixed. Inflows ceased as they would have in any event given falling loan demand and interest rates, and repayment to the branches was undoubtedly encouraged by falling interest rates in the United States, the low point occurring in March, 1971. (See Table I for the key to dates of events noted on the Charts.) But banks did repay $6 billion of the borrowed Eurodollars in 1970, contributing the major share of the massive balance of payments deficit that occurred in that year.

In March 1971, U.S. interest rates reached a low point. Increasingly it was thought that the deficit of the previous year was indicative of the weakness of the dollar and an indication that it would soon be devalued. There was an incentive to U.S. banks to loan funds to the external market and, while foreign central banks complained of holding too many dollars, there was a demand for dollar loans by private foreigners and foreign banks for speculative purposes. U.S. banks were able to increase their foreign lending under the VFCR guidelines because an exemption for export credits was enacted by Congress in 1971.

TABLE I—*Major International Monetary Events, 1966–75*

A. July 1966	Federal Reserve Act Amendments allow national banks to invest up to 25 percent of capital and surplus in one or more foreign banks.
B. November 1967	Britain devalues the pound 14.3 percent.
C. Mar. 17, 1968	Inaugeration of the two-tiered gold system.
D. November 1968	Massive pressure to devalue French franc.
E. March 1969	Pressure on franc resumes; April 28 deGaulle resigns.
F. Aug. 8, 1969	French franc devalued 11.9 percent.
G. Oct. 24, 1969	German mark revalued 9.3 percent.

[3] The reserve requirement was increased to 20% on January 7, 1971 in response to renewed home office borrowing from the branches. It was reduced to 8% effective June 21, 1973 and to 4% effective May 22, 1975. The reserve-free bases were eliminated gradually, the last being eliminated on March 14, 1974.

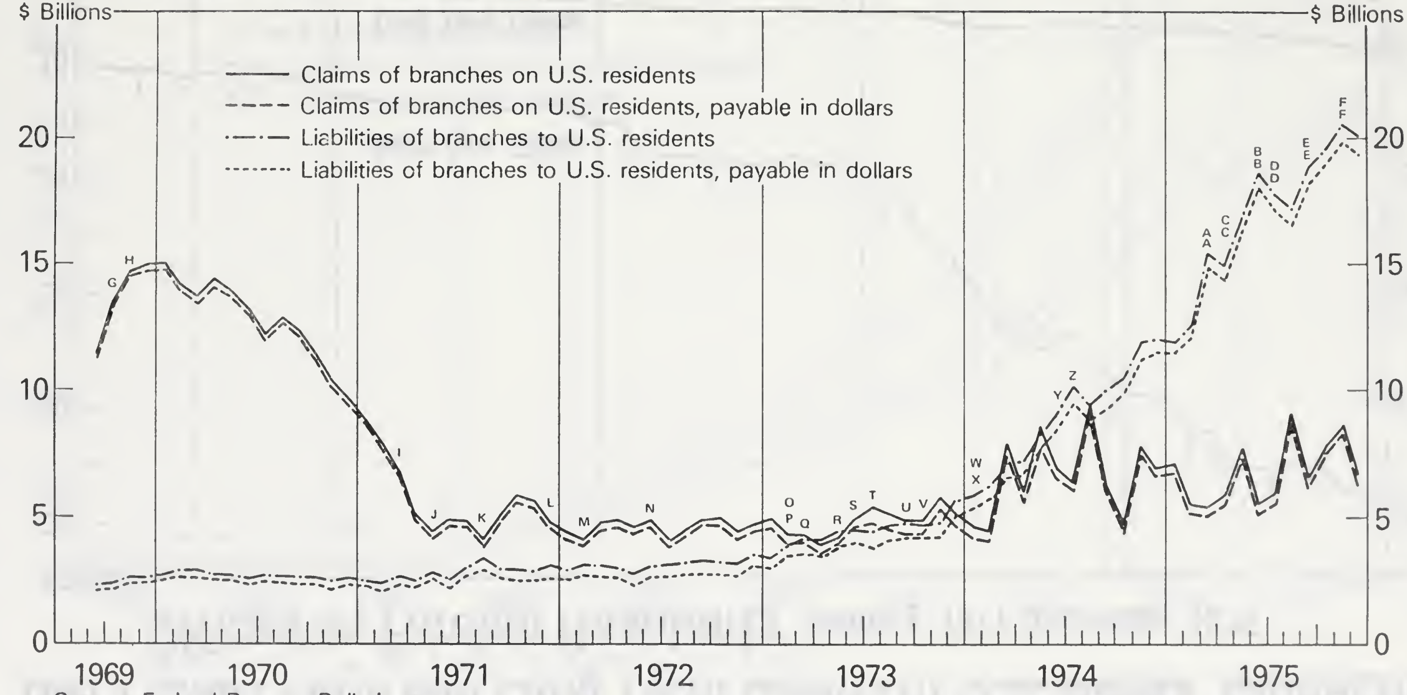
TABLE I—*Major International Monetary Events, 1966–75*—Continued

H. Fall 1969	U.S. interest rates peak, Federal funds rate reaches 9.7 in October, commercial paper rate reaches 9.1 in the first week of 1970.
I. March 1971	Low point for U.S. interest rates—Federal funds 3.7 percent, commercial paper 4.2 percent.
J. May 1971	Wave of pressure to devalue U.S. dollar in response to payments deficit, domestic inflation, dwindling gold and currency reserves and spectacular growth of the Eurodollar market leads to the float of the German mark and Dutch guilder against the dollar. U.S. interest rates peak.
K. August 1971	A new round of speculation against the dollar begins, August 15, 1971 the United States ends convertibility of the dollar into gold.
L. Dec. 18, 1971	World currencies are realigned, dollar devalued 8.6 percent.
M. February 1972	U.S. interest rates hit low point. Federal funds 3.3 percent, commercial paper 3.8 percent.
N. June 23, 1972	British pound devalued after heavy speculation. Germany, Japan and Switzerland act to limit inflows of speculative funds. Italy acts to limit outflows.
O. Feb. 12, 1973	U.S. dollar devalued 10 percent following announcement of $29.7 billion official reserve transactions deficit and subsequent speculation.
P. Feb. 23, 1973	Renewed speculation against the dollar.
Q. Mar. 19, 1973	Adoption of floating exchange rates. European countries especially France, Switzerland, Germany, Spain, the Netherlands, Belgium and Luxembourg—impose reserve requirements on external liabilities and take other measures to curb capital inflows.
R. May 1973	Sharp devaluation of floating dollar occurs.
S. June 1973	U.S. reduces reserves against excess Eurodollar borrowings from 20 percent to 8 percent.
T. July 1973	Voluntary Foreign Credit Restraints are extended to U.S. agencies and branches of foreign banks with over $1 million dollars in foreign assets.
U. September 1973	U.S. interest rates reach new high. Federal funds rate rises to 10.8 percent. Prime commercial paper rate reaches 10.5 percent.
V. October 1973	Japanese Yen depreciates 12 percent against the dollar.
W. January 1974	U.S. eliminates Interest Equalization Tax, Foreign Direct Investment Program and Voluntary Foreign Credit Restraint Program: France, Germany, Japan, Belgium-Luxembourg relax capital controls expecially on domestic banks to encourage inflows and discourage outflows.
X. January 1974	The dollar begins slide against the German mark; depreciation equal to 15 percent by April.
Y. June 1974	Tight monetary conditions and historic high point for U.S. interest rates lead to gradual appreciation of the dollar until late 1974. Federal funds rates peak at 13.55 percent and commercial paper rates peak at 12.2 percent in July.
Z. July to August 1974	Bank failures lead to tight international credit conditions and stem the growth of the Eurodollar market. U.S. and European banking authorities tighten surveillance of banks' foreign exchange operations, particularly forward transactions.

TABLE I—*Major International Monetary Events, 1966–75*—Continued

AA. Late 1974 to March 1975.	Dollar depreciates against all but the British pound and Canadian dollar. U.S. interest rates decline.
BB. March 1975 to September 1975.	U.S. dollar appreciates. Federal funds rate and Eurodollar rates rise in June.
CC. Apr. 5, 1975	Federal Reserve lowers Eurodollar reserve requirements to 4 percent.
DD. July 1975	Italy imposes ceilings on its banks' net external indebtedness.
EE. September to October 1975.	U.S. dollar depreciates. Federal funds and Eurodollar rates decline, September through November.
FF. November and December 1975.	U.S. dollar resumes its upward movement. Federal funds and Eurodollar rates rise.

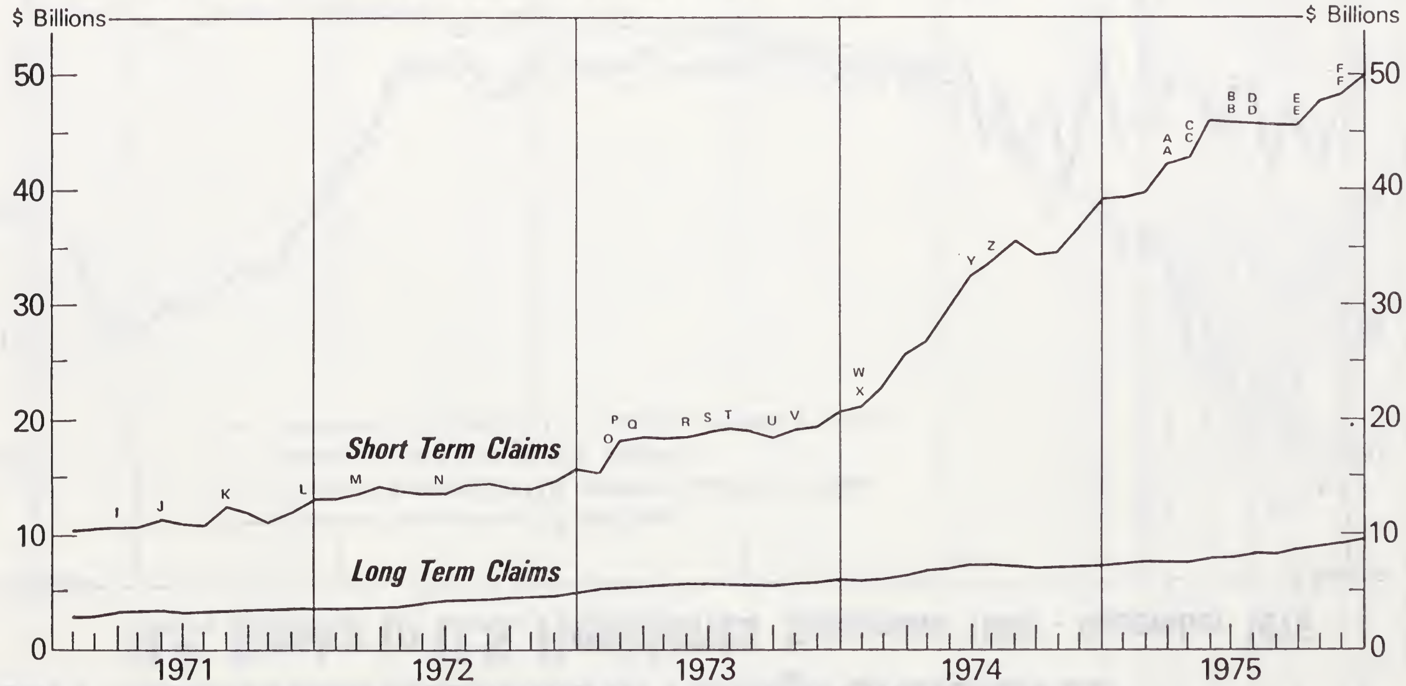
Chart 1 Assets and Liabilities of Foreign Branches of U.S. Banks to U.S. Residents September 1969 - December 1975



Source: Federal Reserve Bulletin

See pages 918 to 920 for key to letters.

Chart 2 Short Term and Long Term Claims of U.S. Banks' Domestic Offices on Foreign Residents January 1971-December 1975

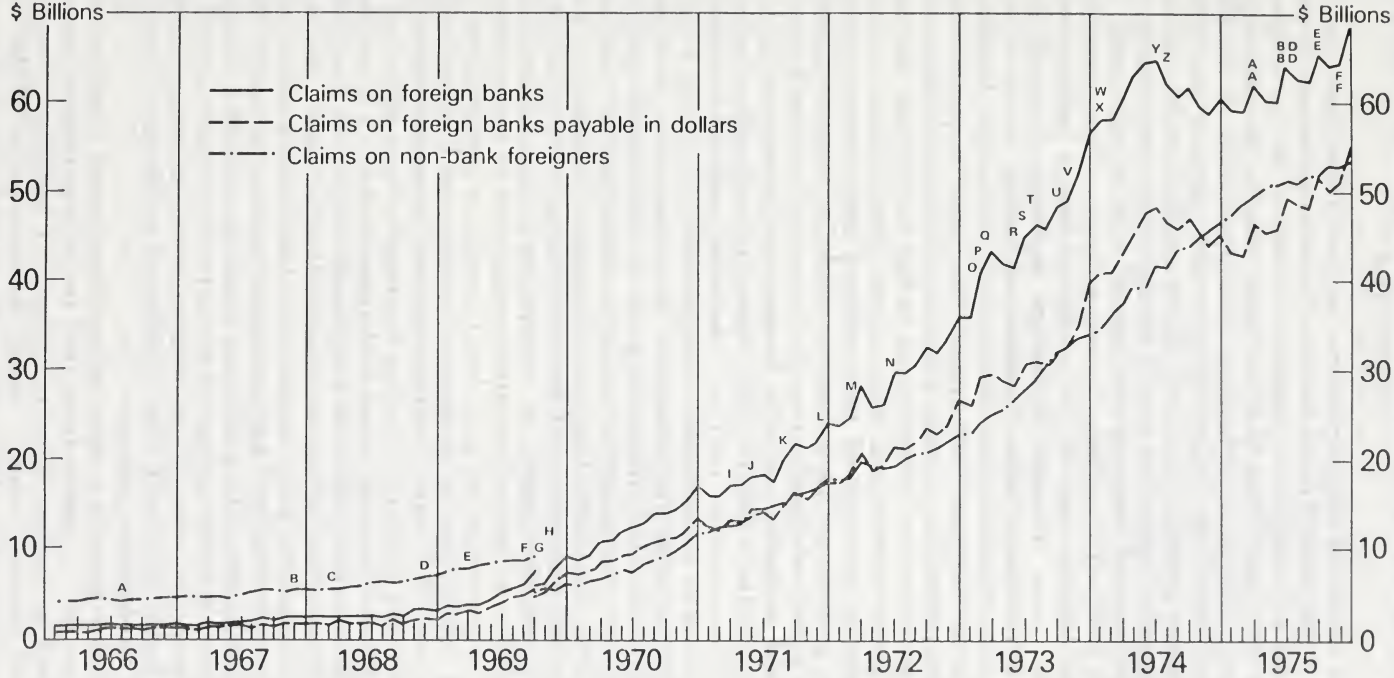


Source: Federal Reserve Bulletin

See pages 918 to 920 for key to letters.

Chart 3 Selected Claims of Foreign Branches of U.S. Banks

January 1966-December 1975



Source: Treasury Bulletin, November 1970, pp. 127, 129 & 130; Federal Reserve Bulletin, February 1972, pp. 110 & 111; September 1972, pp. A88 & A89; March 1976 pp. A70 & A71.

See pages 918 to 920 for key to letters.

THE ROLE OF U.S. BANKS' FOREIGN BRANCHES IN CURRENCY SPECULATION

The history of banking reform in the United States in the first third of this century is the history of a sustained assault on the abuse of credit for speculative purposes. Echoes of the campaign against commodity speculation can be found even in the little legislation extant on international banking—the prohibition in the Edge Act (Section 25a of the Federal Reserve Act) against trading in commodities or providing funds to officers or directors for that purpose. It is therefore ironic that one of the first major problems to occur in the international banking activities of U.S. banks during the last decade involved speculation in cocoa futures. More recently, international banking units of U.S. banks and foreign banks as well, have suffered losses because of foreign exchange speculation. These losses have occurred since the advent of floating rates in 1973. Before that, international banks were among the major beneficiaries of currency speculation. They supplied the funds for speculative activity by customers under a system which insured that speculators (and their creditors) were rarely the losers. As has been widely discussed, the overt losers were central banks, some of which lost reserves trying to maintain the value of their currency while others, for the same reason, gained superfluous reserves which fed domestic inflation.

The growth of speculative activity during the period before floating rates was no doubt inevitable. Governments were unwilling to permit changes in the value of their currencies and values had deviated widely from economic realities. It is perhaps inevitable that whenever fluctuations in prices present the opportunity for profit, credit will be generated to meet the demands of those who seek to take advantage of such a situation. When the prices in question are prices of currencies. the generating of credit to meet speculative demand will itself affect the price. It is argued that speculation has the beneficent effect of stabilizing prices of currency. But, as is true of all speculative activity, benefits depend on moderation in the amount of activity. Too great a volume of speculation can result in unrealistic shifts in prices of currencies just as it does in stocks or commodities.

The coincidence of peaking of assets and liabilities of foreign branches of U.S. banks concurrently with monetary crises indicates the role they played in funding speculative crises and the extent to which these crises contributed to the growth of funds in the Eurodollar pool. After a crisis had receded and loans were repaid, funds which had been attracted out of domestic financial markets were not reabsorbed by those markets. They remained in international markets for relending. As described in Chapter 2, the pressure to relend the funds frequently resulted in a lowering of credit standards. In any event, speculative activity during this period resulted in substantial increases in the world money supply and the job of redistributing the additional funds largely was in the hands of offices of multinational banks located outside their home country.

Charts 3 through 6 trace selected assets and liabilities of foreign branches of U.S. banks from 1966 to 1975 and relate increases and decreases in various types of claims and liabilities to major international monetary events, during the same period (Table 1). These charts indicate that claims on non-bank foreigners show some degree of correlation with currency crises but that liabilities to non-bank

foreigners and to official institutions show no correlation at all. Loans and liabilities to non-related foreign banks show a high degree of correlation, both in total amounts and amounts payable in dollars.

Chart 5 consolidates the data on loans and liabilities to foreign banks and more clearly outlines the relationship between these interbank transactions and periods of currency speculation. The fact that the sharpest bout of speculation occurred at the time of the second devaluation of the dollar in 1973 is more evident here than in the other charts. The widening gap between total claims and total liabilities and those payable in dollars reveals that in 1973, the branches substantially increased the portion of interbank claims which were foreign currency deposits in other banks, and also borrowed from banks more funds denominated in foreign currencies.[4] By 1975, their foreign currency liabilities to other banks were substantially greater than interbank claims denominated in foreign currencies.

A large portion of the foreign currency liabilities borrowed by the branches from other banks were loaned to non-bank foreign customers. As Chart 6 indicates, non-dollar loans to the external market have increased steadily since 1971, while the amount of foreign currency deposits from non-bank sources has increased very little. Total liabilities to non-bank foreigners have, in fact, grown very little in relation to increases in total liabilities over the 5 year period covered. These liabilities show almost no correlation with monetary events. Loans to non-bank foreigners do show such a correlation and indicate that during the speculative crises of 1973, the branches borrowed foreign currency deposits from other banks and loaned a large portion of these funds to non-bank borrowers.

As chart 2 reveals, short-term home office loans to foreigners also show a high degree of correlation with currency crises between January 1971 and March 1973 as do repayments by U.S. banks' home offices to their foreign branches (chart 1). Some of the excess funds generated by the sharp increases in loans and deposits of the foreign branches as a result of speculative activity were absorbed by the parent banks—or seemingly borrowed by them—and then repaid when another wave of speculation created a demand for dollar loans in the external market.

March 1973 was a low point for borrowing by banks in the United States from their overseas branches, and a high point for short-term loans by home offices to foreigners. During the rest of the year, the level of foreign lending remained relatively stable. In January 1974, the VFCR program was ended. The impact of its termination is reflected in both charts 1 and 2. As the charts reveal, there was a dramatic increase in short-term loans to non-related foreigners as well as in loans to U.S. banks' overseas branches. This occurred even as rising loan demand in the United States and Federal Reserve tight money policies forced interest rates to the highest levels of the century. These conditions should have resulted in inflows of funds and an appreciation of the dollar far earlier than June 1974 when these results did occur. But the level of outflows during the first half of the year and the depreciation in the value of the dollar appear to have had a very destabilizing effect on the U.S. economy.

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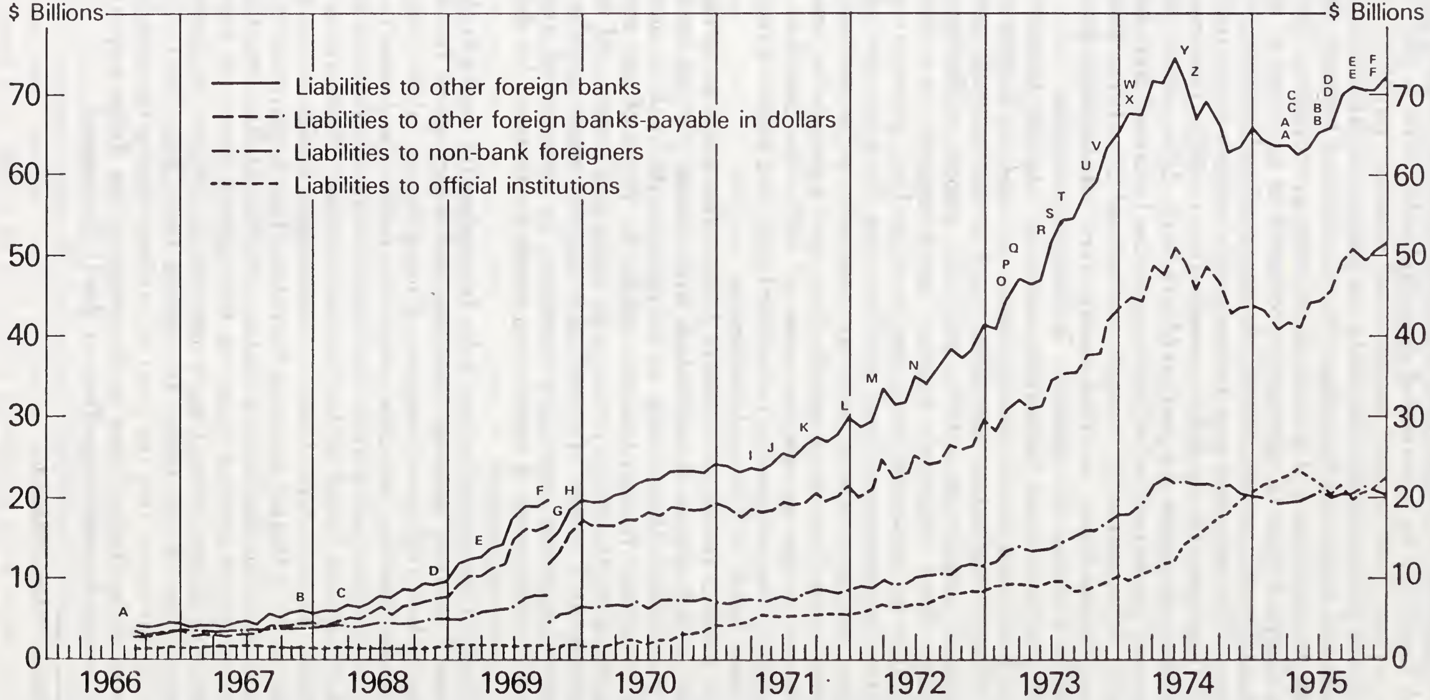
[4] See also Table 1, chapter 1.

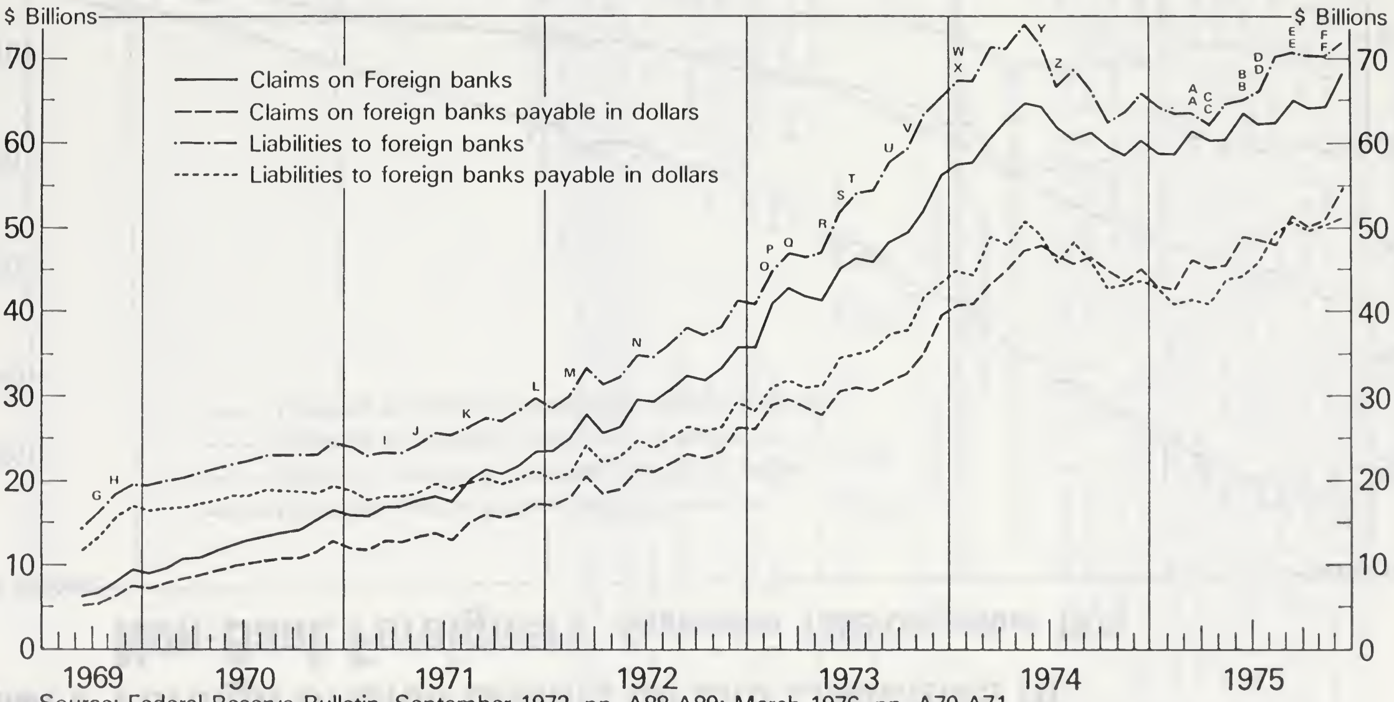
Chart 4 Selected Liabilities of Foreign Branches of U.S. Banks August 1966-December 1975



Source: Treasury Bulletin, November 1970, pp. 128 & 129; Federal Reserve Bulletin

See pages 918 to 920 for key to letters.

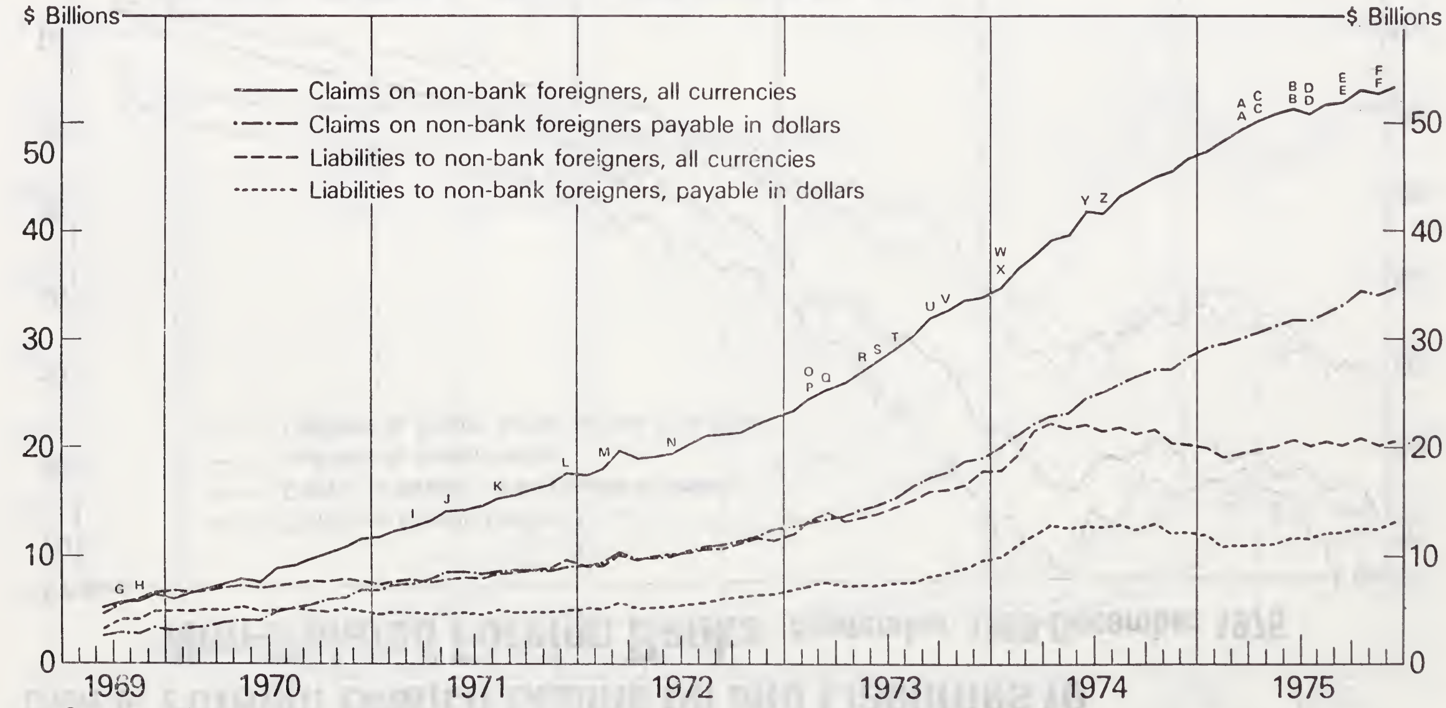
Chart 5 Foreign Branch Claims on and Liabilities to Non-Related Foreign Banks September 1969-December 1975



Source: Federal Reserve Bulletin, September 1972, pp. A88-A89: March 1976, pp. A70-A71.

See pages 918 to 920 for key to letters.

Chart 6 Foreign Branch Claims on and Liabilities to Non-Bank Foreigners September 1969-December 1975



Source: Federal Reserve Bulletin

See pages 918 to 920 for key to letters.

FOREIGN LENDING BY U.S. BANKS IN 1974–75

Following the termination of the Voluntary Foreign Credit Restraint Program in 1974 there was a substantial increase in short-term claims on foreigners ($18 billion) and a large increase in short-term liabilities in this category as well. In the first half of 1975, foreign loans increased further but liabilities declined. By comparison with the short-term data, long-term claims on and liabilities to foreigners are quite small. Banks in the United States increased term loans to foreign borrowers slightly less than $2 billion over the 18 month period from December 1973 to June 1975, indicating that their foreign branches continued to handle most of their foreign lending. Their long-term liabilities to foreigners fell in 1974 and had risen to only $1.4 billion by June 1975, a little less than the December 1973 level.

TABLE II.—FOREIGN ASSETS AND LIABILITIES OF U.S. BANKS

[Dollar amounts in billions]

	December 1973			December 1974			June 1975		
	Total	Percent increase	Percent payable to banks	Total	Percent increase	Percent payable to banks	Total	Percent increase	Percent payable to banks
Long term claims on foreigners by U.S. banks	5,996	18		7,156	19		7,915	10	
Short term claims on foreigners by U.S. banks	20,723	32	[1] 21	38,913	87	[1] 18	45,705	17	[1] 15
Long term liabilities to foreigners by U.S. banks	1,462	43		1,285	—12		1,411	9	
Short term liabilities to foreigners by U.S. banks	69,074	13	[2] 34	94,847	37	[2] 42	92,323	—2	[2] 41

[1] Excludes short term claims of U.S. banks on their foreign branches and claims of U.S. agencies branches of foreign banks on their head offices and foreign branches. These are reported in the total not by type.

[2] Includes deposits, U.S. Treasury bills and certificates and liabilities of U.S. banks to their foreign branches, liabilities of U.S. agencies and branches of foreign banks to their head offices and foreign branches, bankers, acceptances, commercial paper, and negotiable time certificates of deposit.

Source: Federal Reserve Bulletin.

Chart 7

SELECTED EURO-DOLLAR AND U.S. MONEY MARKET RATES

AVERAGES FOR WEEK ENDING WEDNESDAY

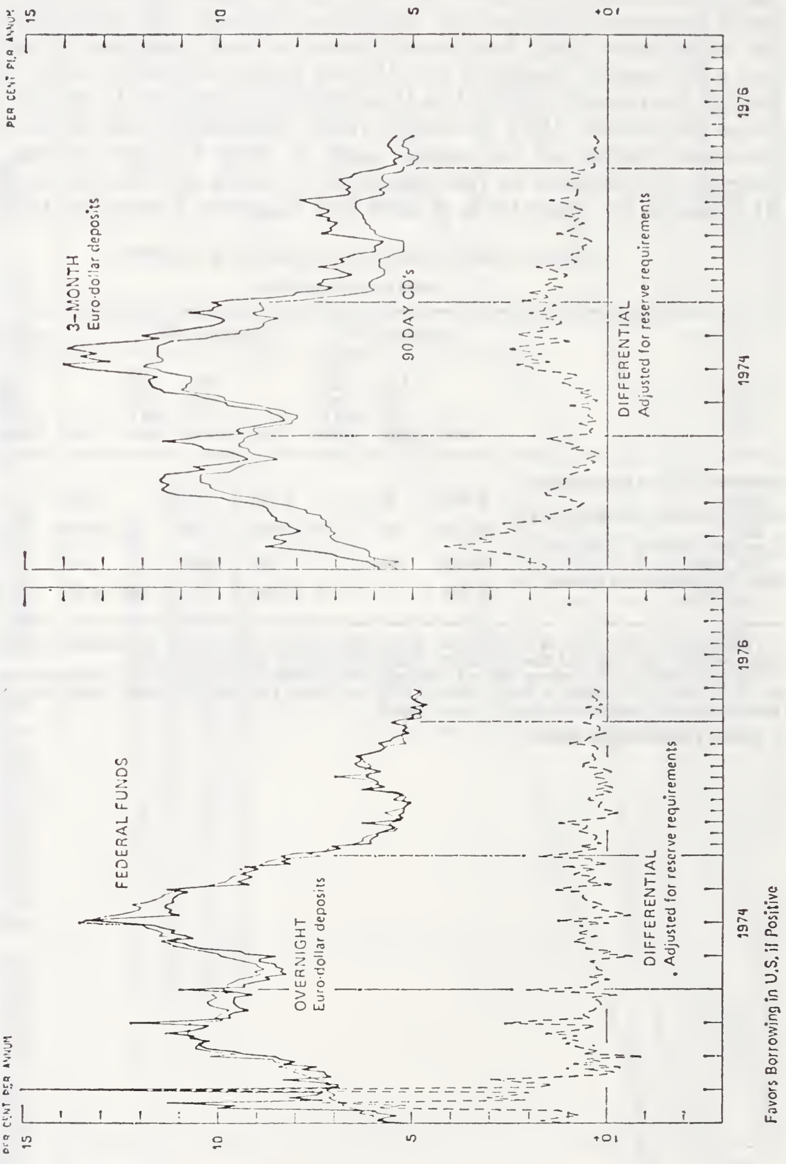
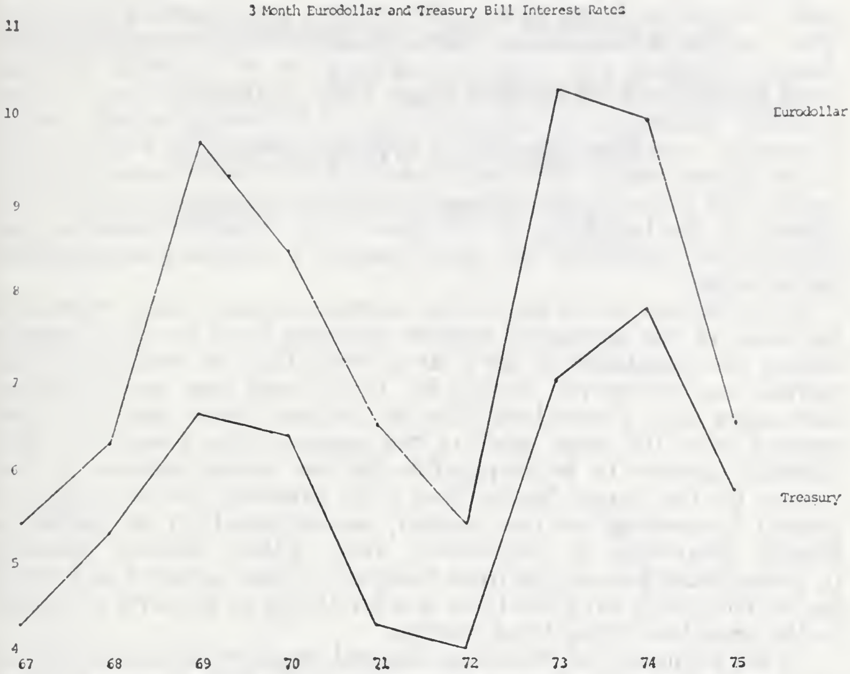


Chart 8

3 Month Eurodollar and Treasury Bill Interest Rates



But as the data also shows, on average some 40% of the short-term claims and liabilities are to foreign banks,[5] and about 20% of the total is to non-related banks. Some portion of the approximately $20 billion of short-term liabilities of U.S. banks to non-related banks are deposits of Eurobanks placed in the United States for clearing and maintaining liquidity ratios. Changes in interest rates in the United States and in international markets determine what portion of their dollar reserves these banks will hold in New York and what portion in U.S. banks' foreign branches in London or Nassau. These deposits, plus the short-term loans of U.S. banks to non-related foreign banks (approximately $7 billion at year-end 1974) and the loans and liabilities of U.S. branches and agencies of foreign banks to their parents and of U.S. banks to their foreign branches are the principal vehicles for arbitrage between U.S. and international markets. At year-end 1974 they aggregated some $19 billion in assets and $33 billion in liabilities. The volatility of these funds makes the statement of precise figures somewhat difficult. Nevertheless, the amounts are large enough to affect shifts in interest rates between the very large U.S. money market and the Eurodollar market with the result that Eurodollar call rates and rates on overnight Federal funds move very closely together as do those on 3-month Eurodollar deposits and 3-month CD's in the United States (Chart 7).

[5] While Table II shows only 18% of short-term claims payable to banks in 1974, this does not include amounts loaned by U.S. banks to their foreign branches ($5.8 billion at year-end 1974) or amounts loaned by U.S. Branches and agencies of foreign banks to their parent banks ($6.5 billion). Liabilities to these entities are included in amounts payable to banks in the data on short-term liabilities.

The problems of branches in the summer of 1974 and the efforts of their parents to assist by providing funds are discussed elsewhere. This was the period during which the Eurodollar interbank market shrank following the announced difficulties of Franklin National Bank in May and the collapse of the Herstatt Bank in June. Despite a record Federal funds rate of 13.55%, a differential which favored borrowing overnight Eurodollar deposits, and peak loan demand in the United States, U.S. residents and parent banks loaned approximately $10 billion to the foreign branches as of mid-June, up from $5 billion at the beginning of the year. This incident indicates that under some conditions the usual reasons for inflows and outflows do not apply.

The shake-out in the Eurodollar market may have been responsible for some of the continued outflow of funds from the U.S. parents during the remainder of the year as well. But the volume of commercial and industrial lending by U.S. banks rose again between September and November, 1974 as Federal funds and CD rates receded from the peak levels of the summer. The pressure of loan demand appears to be responsible for the sharp increase in borrowing by the parent banks from their branches (or repayment of branch borrowings to the parent), accompanied by a decline in branch borrowing in September, 1974. Other, smaller increases in parent bank borrowings from foreign branches occurred in November and January, 1975 but there was no decline in the level of lending to the branches during these periods.

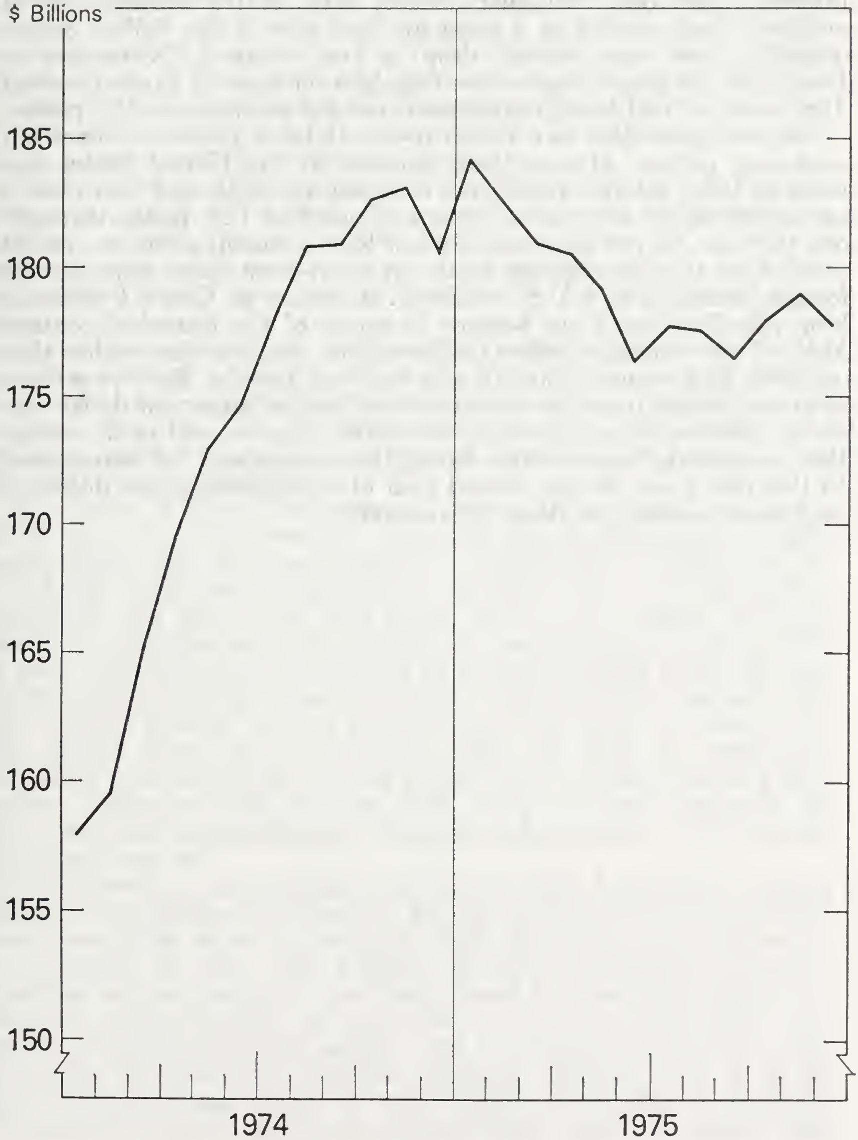
At the beginning of 1975, loan demand began to fall and continued to decline until June, hitting a low about $7.5 billion below the January peak and almost $2 billion below the level of August, 1974 (Chart 9). Rates on Federal funds and CD's continued to fall and loans by parent banks and other U.S. residents to foreign branches rose to a level of approximately $15.4 billion in March. Early in April, the Federal Reserve announced that it would lower reserve requirements on Eurodollars to bring the requirement "into better alignment with reserve requirements on the time and savings deposits of domestic residents", with the hope that this action "may strengthen the position of the U.S. dollar in the foreign exchange markets".[6] It was thought that the depreciation of the dollar which began during the latter part of 1974 was related to the outflow of funds from parent banks and other U.S. residents to their foreign branches, as well as to the decline in U.S. interest rates and in economic activity in the United States.

The announcement of the reduction in the Eurodollar reserve requirement produced a $500 million drop in outflows to branches in April and a matching $500 million inflow. But when the new requirement became effective in late May, it did not produce the desired brake on outflows. There was an additional inflow of $2 billion in May but it was quickly erased by a $2 billion drop in June.

[6] Federal Reserve press release of April 9, 1975.

Chart 9 Commercial and Industrial Loans, All Commercial Banks (Seasonally Adjusted)

January 1974-December 1975



Source: Federal Reserve Bulletin, January 1975, p. A15; January 1976, p. A13.

In spite of the increased outflows in June, there was a rise in loan demand and in interest rates in the United States and the dollar appreciated in value. Branch claims on U.S. residents did fall $1.5 billion over July and August and in August, the parent banks in the United States borrowed over $3 billion from the branches but repaid almost all of the additional amount in September, together with additional advances to the branches of $800 million in that month.

Loan demand had fallen in July but rose again in September. This upswing was accompanied by falling interest rates—the reverse of the situation between June and mid-July when both loan demand and interest rates rose. Declining interest rates and a continuation of outflows also resulted in a drop in the value of the dollar. Subsequently, there was another drop in loan demand (November to December) as interest rates rose but data on flows of funds between U.S. residents and foreign branches is not yet available for this period.

Reviewing the data on a month-to-month basis presents a somewhat confusing picture. Overall, loan demand in the United States was weak in 1975, interest rates were at moderate levels and there was a sustained outflow of funds to foreign branches of U.S. banks throughout the year. Given the generally low loan demand, shifts in interest rates were the determining factor in short-term flows between the foreign branches and U.S. residents. A glance at Chart 1 indicates how volatile those flows became in terms of the historical context. Most of the volatility reflects inflows from the branches rather than outflows, and occurred largely as a result of Federal Reserve policies to attract funds from the branches to offset the impact of dollar outflows. These attempts were not successful however, and to the extent that increases in interest rates during the summer and fall were related to this effort and to the related goal of strengthening the dollar, it may have undermined domestic recovery.

CHAPTER 11

Conclusion

The material in the previous section was compiled to illustrate the degree of integration between national and international financial markets and the mechanism through which it occurs. Such integration results in greater uniformity of credit availability among countries through flows of funds between them and helps to explain why the business cycles in developed countries now overlap. But it also makes it more difficult for domestic monetary policy to influence the course of the business activity in national markets.

The international financial market also influences the international monetary policies of nations. The use of balances denominated in external currencies as investment assets may have an impact on exchange rates which is at variance with economic events. Economic and political events would ordinarily serve as determinants and prognosticators of exchange rates under a floating rate system. But as an investment vehicle, the market could reflect speculative activity as well as become a vehicle itself for power politics. The development of international capital markets is not necessarily undesirable but it does mean that, like domestic capital markets, the international exchange market should be subject to regulation in order not to damage economic activity.

Regulation of foreign exchange and international capital markets is all the more desirable because these markets are dominated by large banks which also serve as depository institutions. Participation by U.S. banks in currency speculation was made easy by the absence of regulation and disclosure. The rapid build-up of foreign currency assets and liabilities in their foreign branches which occurred in 1973, as well as the substantial increase in forward foreign exchange contracts, weakened future bank soundness. Rapid entree into activities that require a high level of expertise and involve substantial new risk should have been discouraged. But the kind of monitoring necessary to discover the level of activity did not take place. Policy makers, therefore, had no data with which to assess some of the most remarkable international economic and monetary developments in the post-war era.

The absence of data applies also to the more traditional banking business of multinational banks. Recent disclosures have indicated that these banks have strayed beyond the U.S. regulatory framework in a number of areas. The absence of overt regulation of overseas activities and of disclosure has contributed to this trend. Loan concentrations—to countries, to industries, to customers, especially when those customers are other banks—and a widening gap between the maturities of loans and liabilities represent specific areas in which U.S. banks overseas branches exceed limits which the same banks scrupulously observe within the United States. And yet, as has been

argued, these are not separate banks but, rather, a part of the parent network and of the U.S. banking system.

The failure of Franklin National Bank demonstrated the degree of integration of domestic and international operations of U.S. banks. It also indicated that U.S. regulators could not take a *laissez-faire* attitude toward failures of large banks because such a high proportion of their liabilities are uninsured and because a substantial portion of uninsured liabilities are to other banks. It has been suggested that not only lack of disclosure but the implied guarantee against failure which seemed to be confirmed by the way Franklin was handled may encourage unsound banking practices.

This suggestion seems particularly applicable in assessing the concentrations of loans to individual countries extended by the largest U.S. banks. It appears likely that banks have assumed that these loans are in some sense guaranteed—that some form of governmental assistance will be given to a country to prevent a default that might threaten major banks. If such an outcome is likely, then there should be some public policy input to determine where, how and in what amounts the funds are to be used. If decisions involving the allocation of credit to other governments are to remain subject to the judgment of the private banking system there must be some assurance that the private sector will bear the brunt should default occur.

Analyses of interbank lending and capital adequacy have indicated that deposit insurance is no longer an effective means of instilling confidence in the banking system since so small a portion of the liabilities of large banks are insured and these banks—because of their size and interrelationship with other banks—have such an actual and potential impact on the banking system. Thus, for the private sector to bear the brunt of failure of one of these institutions without suffering major disruptions, some new method of providing a margin of safety must be devised.

Any solution should involve increases in bank capital along with regulation and control of the interbank markets. Another solution is for banks to pay insurance premiums in relation to the amount of uninsured liabilities. This latter suggestion may seem unreasonable since it would appear that banks with less insured deposits as a ratio to the total should pay proportionately less insurance. But, as the Franklin experience demonstrated, the reverse in true. Banks have assumed large uninsured liabilities with no commensurate increase in capital or decrease in risk taking. The FDIC is now administering the collateral acquired by the Federal Reserve Bank of New York when it paid off Franklin's *uninsured* deposits. The insured deposits were transferred to European-American Bank and Trust Co. It may be that, after the 14 years required to liquidate Franklin's portfolio and reclaim the funds that must be repaid to the Federal Reserve Bank in two years, the FDIC insurance fund will have suffered no loss. But that is not the point. The point is that it assumed the responsibility and the risk to guarantee deposits which were not insured. Further, this appears to be the only acceptable method of handling large failures in the future since the alternative suggested by banking regulators is to permit their acquisition by other large banking institutions in other states or from other countries, which has the effect of increasing banking concentration.

Regulators have discovered that overseas activities of many U.S. banks were not well managed and are now encouraging the development of uniform internal controls and audits. A better degree of managerial involvement is necessary in a number of areas, especially with regard to control over foreign subsidiaries and affiliates. But it is also possible that the failure of U.S. regulators to assume responsibility for providing an adequate and unambiguous regulatory framework for overseas activities has contributed to some of the managerial problems that have developed. The suggestion has been made that the same regulatory standards which apply to domestic activities should apply to those overseas. Since this suggestion was made by a knowledgeable and experienced international banker, it cannot be viewed as overrestrictive.[1]

The same banker also supported the suggestion that the range of activities of U.S. banks overseas be limited to those permitted in the United States.[2] It is hoped that the material in Chapter 3 and Appendix A have indicated just how much at variance with domestic restrictions these activities are and that the risks involved, and the actual and potential conflicts of interest are real.

In addition to its concerns for bank soundness and the quality of regulation and supervision, this study has also attempted to call attention to the fact that efforts to increase competition in international banking principally through the licensing of shell branches and of joint ventures, have not been worth the candle. No specific suggestions or remedies to improve the situation have been offered. But, again, it is hoped that the effort to demonstrate the extent of banking concentration in these markets and to explore some of the implications of the degree of concentration have been successful in indicating the seriousness of the problem.

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[1] See the excerpt from a letter to Congressman St Germain from Richard H. Cummings, Executive Vice President, National Bank of Detroit, at the end of Chapter 5.

[2] See the excerpt from Mr. Cummings' letter quoted in Chapter 3.

APPENDIXES

APPENDIX A

OVERSEAS INVESTMENTS OF U.S. BANKS

APPENDIX A

OVERSEAS INVESTMENTS OF U.S. BANKS

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Angola:				
Banco Inter-Unido Luanda	Commercial bank	First National City Bank.	50	B
Societe de Fomento de Quicuchi S.A.R.L., Luanda.	Agriculture	do	1	S_B
Afghanistan:				
Industrial Development Bank of Afghanistan Kabul.	Development bank	Chase Manhattan	7.5	E
Argentina:				
*Editorial Codex, S.A., Buenos Aires	Publishing company	Bank of America	1.8	E
*BT Rio De La Plata, S.A., Buenos Aires	Commercial bank	Bankers Trust	100	E
Bullco S.A., Buenos Aires	Insurance broker	do	49	E
Bullrich S.A. de Inversiones	Credit agency	do	20	E
*Compania Argentina De Productores De Leche, S.A., Buenos Aires.	Milk processing	Chase Manhattan	(A) 6.8 (B) 3.1	S_E
Neblis S.A., Buenos Aires		do	Option	E
Cooperativa Electrica de Bariloche, Bariloche.	Service	do		E
Cooperativa Electrica de Puerto Despado, Deseado.	do	do	Option	S_E
Cooperativa Electrica de Saldungardy, Saldungaray.	do	do	Option	S_E
Cooperativa Lux y Fuerza Industrias Anexas de Renta Alta, Punta Alta.	do	do	Option	S_E
*Banco Argentino de Comercio, Buenos Aires.	Commercial bank	Chase Manhattan Bank, N.A.	*41.6 *31.3	B E
Cooperativa Popular Limitada—Usina Electrica de Comodoro Ruvodavia.	Services	Chase Manhattan		S_E
Debentures de Electronics Industrial Eximate BS, AS.	Wholesale trade	do	Option	S_E
Instituto Mexto de Inversiones Mobiliarias	Credit agency	do	Option	S_E
**Banco Shaw, S.A., Buenos Aires	Commercial bank	Continental Illinois N.B. & T.C.	**10.0 *10.3 *4.7	E E S_E
*Fidusse S.A., Buenos Aires	Argentina—Investment company.	Fidelity Bank	33.8	S_E
King Ranch, Argentina, Buenos Aires	Nonbanking	Kleberg First National Bank, Kingsville, Tex.	100	BHC
Heller Sudamerio Factor Sociedad Anonima de Services & Mandatos, B.A.	Business credit	American National Bank & Trust.	50	S_{BHC}
*Sociedad Anonlma de Servicios e Inversiones (SASIN) Buenos Aires.	Holding company	First National Bank of Boston.	100	E
**Corporacion Financiera de Boston Cia. Financiera S.A., Buenos Aires.	Financing activities	do	100	S_E
*International Factor S.A., Buenos Aires	Export-import services.	do	100	E
*Servicos Integrales S.A., Buenos Aires	Lease financing and writing conditional sales agreement.	First National City Bank.	100	S_{BHC}
*Ripco S.A., Buenos Aires	Real estate and equipment investment company.	do	100	E
Usina Popular Cooperativa Ltda de Necochea Sebastian de Maria, B.A.	Services	do	1	S_E
Citcard S.A. Commercial Financiera y de Servicos, Buenos Aires.	Personal credit	do	100	E
Banco Argentino del Atlantico S.A., Mar Del Plata.	Commercial bank	do	80.1	B
Cooperativa de Electricidao de Dionisesia Ltda, Buenos Aires.	Services	do	80.1	S_B
Cooperativa de Electricidao Gral. Balear ce Ltda, Buenos Aires.	do	do	80.1	S_B
Cooperativa de Electricidao Mar del Plata Ltda, Buenos Aires.	do	do	80.1	S_B
*Banco Frances del Rio de la Plata, Buenos Aires.	Commercial bank	Morgan Guaranty Trust Co.	42.5	E
*Industrias Reconquista, S.A., Buenos Aires.	Holding company	do	10	E

Key to symbols relating to ownership may be found at end of table.

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Australia:				
Alfred Grant Holdings Ltd., Brisbane	Real estate owner	Bank of America	10	SE
Australian Datronics Ltd., Sydney	Manufacture	do	20	SE
Computer Manufacturing Australia Pty, Ltd., Sydney.	do	do	25	SE
Eastern Gem Co., Pty., Ltd, Sydney	Mining	do	20	SE
John McIlwraith Industries Ltd. Melbourne.	Manufacturing	do	3	SE
Northern Agriculture Development Corp. Ltd., Sydney.	Agriculture	do	9	SE
Tower Research Development, Melbourne	Investment company.	do	19.3	SE
*Cliffs Western Australian Mining Co., Pty., Ltd., Perth.	Iron ore mining	do	*10	E
Partnership Pacific Ltd., Sydney	Finance	do	33.3	E
Commercial and General Acceptance Ltd., Sydney.	do	do	.01	E
			20	E
Leasing Underwriting Ltd., Sydney	Leasing company	do	20	E
MBC International Ltd., Melbourne	Merchant bank	do	25	E
Wesdelf Ltd., Perth	Finance	Bank of New York	25	E
*Share Australia Management Co., Ltd., Sydney.	Investment management.	Bankers Trust Co	5	SSSE
			30	SE
			*5	E
*Ord BT Co., Sydney	Investment banking.	do	94.4	E
The Australia Fund of Funds, Sydney	Holding company	do	.3	SE
Allian Investments Pty., Ltd., Sydney	Security and commodity broker.	do	13	SE
Denise Investments Pty., Ltd., Sydney	do	do	100	SE
Eastrock Corp. Pty., Ltd., Melbourne	Credit agency	do	14	SE
First City Property Co. of Australia Ltd., Brisbane.	Real estate	do	13.8	SE
Music Sales Pty., Ltd., Sydney	Retail	do	5	SE
Ord-Bt Finance Pty., Ltd., Sydney	Credit agency	do	100	SE
Ord-BT Nominees Pty., Ltd., Sydney	Holding company	do	100	SE
Pendal Nominees Pty., Ltd., Sydney	do	do	100	SE
Raynsford Investments Pty., Ltd., Sydney	Investment company	do	14	SE
Ryan House Developments Pty., Ltd., Sydney.	Real estate	do	30	SE
*Chase N.B.A. Group Depository, Ltd., Melbourne.	Finance	Chase Manhattan Bank	45	E
*Consolidated Fertilizers Ltd., Brisbane	Fertilizer	do	.8	SE
*All States Commercial Bills, Ltd., Melbourne.	Finance	do	45	E
*Chase-N.B.A. Group Ltd., Sydney	Merchant banking, finance.	do	33.3	E
*ANG Holdings Ltd., Port Morsby, Papua	Holding company	do	2.8	E
*Australia-New Guinea Corporation, Port Moresby, Papua.	Finance	do	3.1	E
*Esperance International Pty., Ltd. Esperance.	Land development	do	*11.2	E
			*23.0	SE
Alliance Holdings Ltd., Melbourne	Holding company	do	18	E
			*14.8	E
*Development Underwriting Ltd., Sydney	Finance	Chemical Bank	10	E
*Commercial Continental, Ltd., Sydney	Merchant bank	Continental Illinois	19.3	E
Commercial Continental Securities Ltd., Sydney.	Nonbanking money market operation.	do	19.3	E
*Australian International Finance Corp. Ltd., Melbourne.	Merchant bank	Crocker National	20	E
*Do		*Irving Trust	20	E
Manufacturers International (Australia) Pty., Ltd., Sydney.	Financial institution	Manufacturers National Bank of Detroit.	10	E
Permanent Finance Corporation Ltd., Brisbane.	do	do	10	E
King Ranch (Australia) Pty. Ltd., Melbourne	Nonbanking	Kleberg First National Bank, Kingsville, Tex.	10	BHC
Associated Stations Pty., Ltd., Sydney	do	do	10	SBHC
Avon Downs Pty., Ltd., Sydney	do	do	10	SBHC
King Ranch (New Zealand) Ltd., Sydney	do	do	10	SBHC
King Ranch Development Co. Pty., Ltd., Sydney.	do	do	10	SBHC
King Ranch Management Service Pty., Ltd. Sydney.	N/A	do	10	SBHC
Queensland Northern Territory Pastoral Co., Brisbane.	Nonbanking	do	50	SBHC
			50	SBHC
Blythe Bros. Pty., Ltd., Sydney	do	do	25	SBHC
			75	SBHC

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Australia—Continued				
D. K. Gordon Pty. Ltd. Sydney	Nonbanking	Kleberg First National Bank, Kingsville, Tex.	25	SBHC
Hann River Pastoral Co. Pty. Ltd., Sydney	do	do	25	SBHC
			75	SBHC
King Ranch Pastoral Pty. Ltd., Sydney	do	do	70	BHC
Glenroy Pastoral Co., Sydney	do	do	1	SSBHC
			49.5	SSBHC
			49.5	SSBHC
Mount House Pastoral Co., Sydney	do	do	50	SSBHC
			50	SSBHC
D. K. Gordon Pty. Ltd., Sydney	do	do	75	SBHC
Gulf Cattle Co. Pty. Ltd., Sydney	do	do	100	SBHC
Walter E. Heller Australia Ltd., Sydney	Business credit	American National Bank and Trust.	50	SBHC
Heller Factors Pty. Ltd., Sydney	do	do	100	SSBHC
Talcott Commercial Factors Pty. Ltd., Sydney.	do	do	100	SSBHC
*Industrial Acceptance Corp., Melbourne	Finance	First National City Bank.	22.7	SE
*Industrial Acceptances Corp. (Holding) Ltd., Melbourne.	Holding company	do	21.7	SE
*Citinational (Holding) Pty., Sydney	do	do	44	E
**FNCB-Waltons Corp. Ltd., Sydney	Finance	do	50	E
Arnotts First City Building Society, Victoria	Mortgage banker	do	50	E
*Computer Resources Pty., Ltd., Sydney	Computer services	Fidelity Bank	10.2	E
*Network Finance Ltd., Sydney	Real estate	do	1.4	E
*Do	Real estate loan financing.	Mellon National	24.8	E
*First Leasing, Australia, Melbourne	Leasing	First National Bank of Boston.	50	E
*Reinehr Industrial Lease and Finance Pty. Ltd., Melbourne.	do	do	100	SE
*Consolidated Leasing Queensland Pty., Ltd., Melbourne (defunct).	do	do	100	SE
Boston Financial Ltd., Melbourne	Finance company	do	100	E
Aectus Finance Pty., Ltd., Melbourne	Credit agency	do	100	SE
Reinehr Industrial Lease (S.A.) Pty. Ltd., Melbourne.	Insurance	do	100	E
Reinehr Industrial Lease (Queensland) Pty. Ltd., Melbourne.	do	do	100	E
First Chicago Australia Ltd	Credit agency	First National Bank of Chicago.	100	SE
*Delfin Industrial Finance Ltd., Sydney	Investment banking	Manufacturers Hanover	11.1	EE
*Development Finance Corp., Sydney	Finance	do	13	E
*Australian United Corp., Ltd., Melbourne	Holding company	Morgan Guaranty	20.9	SE
*Financial Leasing Corp. (Australia) Ltd., Melbourne.	Leasing	do	35	E
*Investment and Merchant Finance Corp., Ltd. (IMFC), Adelaide.	Merchant banking	National Bank of Detroit.	24.5	E
*IMFC Discount Ltd., Adelaide	Finance	do	24.9	E
*Australian Finance and Investment Co., Sydney.	do	Philadelphia National Bank.	20	E
PNB International Finance Co.-Australia Ltd., Sidney.	Finance company	do	100	E
Financial Resources Ltd., Melbourne	Finance	Union Bank, Los Angeles.	22	E
Provident International Corp., Ltd., Sydney	Holding company	Provident National Bank.	80.2	E
Provident Leasing Corp., Ltd	Aircraft and equipment leasing.	do	100	E
*Mercantile Pacific Finance Ltd., Sydney	Leasing	Seattle-First National Bank.	32.5	E
Security Pacific Australia Ltd., Sydney	Merchant Bank	Security Pacific National Bank.	100	SE
*Tricontinental Corp. Ltd., Melbourne	do	Security Pacific NB	24	E
*Euro-Pacific Finance Corp., Ltd., Melbourne	Finance	United California Bank	12.5	E
*Martin Corp. Group Ltd., Sydney	do	Wells Fargo Bank NA	40	SE
Seawest Pty. Ltd. Perth	Services	Wells Fargo	33.3	SE
Austria:				
Austrian Airlines, Oesterreiche Luffverhekehrs, Vienna.	Airlines	Chase Manhattan Bank	Nominal	SE
*Zentralkasse Der Volksbanken Oesterreiche Registrieste, Vienna.	Clearing house	do	Negl.	SE
**Oesterreichische Kommer Zialbank A.G., Vienna.	Commercial banking	do	74.5	E
*Breisach Pinochof Schoeller, Vienna	do	Chemical Bank	25	E
*Conill Bank A.G., Vienna	do	Continental Illinois	100	E
*International Factors-Austria G.M.B.H., Vienna.	Factoring	First National Bank of Boston.	25	SE
Interbank A.G., Vienna	Commercial bank	First National City Bank.	50	B
*Internationale Bank fur Aussenhandal A.G., Vienna.	do	Philadelphia National Bank.	10	SE

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Bahamas:				
Morgan Guaranty Nominees Bank Ltd., Nassau.	Holding company	Morgan Guaranty	100	B
*Cisalpine Asalpine Overseas Bank Ltd., Nassau.	Bank	Bank of America	8.3	S_{SE}
*Wobaco Trust Ltd., Nassau	Miscellaneous banking.	do	100	S_E
World Banking Corp. (Bahamas) Ltd	Commercial bank	do	100	SS_E
World Banking Corp. Ltd, Nassau	do	do	100	SE
Trunoms Ltd., Nassau	Holding company	do	100	SS_E
50 Shirley Sti. Ltd., Nassau	do	do	100	SS_E
*Bank One Realization		Bank of New York	100	E
**Bahamas International Trust Co., Nassau	Commercial bank	do	15	E
*Alexander Hamilton Services Ltd	Investment advisory services.	do	(P)40	E
*The Chase Manhattan Trust Corporation (Nominees) Ltd., Nassau.	Nominees company	Chase Manhattan Bank.	100	S_B
**Chase Manhattan Trust Corporation, Ltd., Nassau.	Banking and trust	Chase Manhattan Bank NA.	100	E
*Deltec Panamerica S.A., Nassau	Investment banking	Central National Bank, Cleveland, Ohio.	1.3	E
*Do	do	Republic National Bank, Dallas.	.8	E
*Bank of Nassau Ltd., Nassau	Commercial banking	Bank of Virginia Co., Richmond, Va.	(P)100 (C)75	E
*Atlantic Management SA	Holding company	Fidelity Bank	.2	S_E
Campos Hermanos D.P.C	Steel and steel specialty products.	Fidelity Bank, Rosemont, Pa.	1.6	S_{SE}
Great Southwest Corp		do	3 warrents	S_{SE}
*American International Bank (Bahamas) Ltd., Nassau.	Commercial banking	do	100	E
*Fidelity International Corp. (Bahamas) Ltd., Nassau.	International investment banking.	do	100	E
*Bank of Boston Trust Co. (Bahamas), Ltd., Nassau.	Banking and trust	First National Bank of Boston.	100	B
Albaine Investment Ltd., Nassau	Holding company	First National City Bank.	100	S_B
**First National City Trust Co. (Bahamas) Ltd., Nassau.	Trustees management.	do	100	
*First National Nominees Ltd. (Nassau)	Holding company	do	100	S_B
*Providence Associates Ltd., Nassau	Nominee company	do	100	S_B
*Compass Bank & Trust Co. Ltd., Nassau	Commercial bank	First National Bank of Miami.	100	S_{BHC}
*Canusa Ltd., Freeport Grand Bahamas	Investment company.	Wachovia	20	E
*Arawak Trust Co., Nassau	Banking and trust	Marine Midland Bank-New York.	10.7	S_E
**New World Development Corp., Ltd., Nassau.	do	Philadelphia National Bank.	100	E
Rawson Trust Co., Nassau	Commercial bank	do	25	S_E
*Deltec Panamerica S.A., Nassau	International finance.	Provident National Bank.	1	E
*Republic National Bank of New York (International), Ltd., Nassau.	Commercial bank	Republic Nationa l Bank, New York.	100	B
*Deltec Panamerica S.A., Nassau	Investment banking	State Street Bank & Trust Co., Boston.	4.2	E
*Do	Private investment banking.	Manufacturers National Bank, Detroit, Mich.	1.2	E
*Do	Investment banking	Northwestern National Bank, Minneapolis, Minn.	1.1	E
*Do	do	Mercantile Trust Co., St. Louis, Mo.	.8	E
*Bank of New Providence, Ltd., Nassau	Commercial banking.	Chemical Bank	50	E
Bahamarine Ltd., Nassau	Transportation	do	9	S_E
Portsoken Properties Ltd., Bahamas	Nonbanking	Texas Commerce Bank, N.A.	100	S_B
AFC Agency Ltd., Nassau	Credit agency	Sterling National Bank & Trust Co. of New York.	100	S_{BHC}
Walter E. Heller & Co. (Bahamas) Ltd. Nassau.	do	American National Bank & Trust.	100	S_{BHC}

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Belgium:				
*Banque du Benelux S.A., Antewrp	Commercial banking	Bankers Trust Co., New York.	*16.7 *16.6	SE
*Instit de Reescompte it Gar, Brussels	Semiofficial finance institution.	Chase Manhattan Bank	1.5	SE
*Union Belge Des Banques S.A., Brussels	Bank	do	2.3	SE
*Locabel, S.A., Brussels	Active in the field of leasing equipment.	do	10	SE
Soc. Nat. de Credit a L'Industrie S.A., Brussels.	Semiofficial finance institution.	do	1.1	SE
*Caisse Interprof De Dep et De Vir De Titres, Brussels.	Clearinghouse for securities.	do		SE
*Coop De Liquid Du Terme De La Bourse De Brux S.A., Brusseis.	Belgium professional organization.	do		SE
*Comite de Liquid Des Operations a Terme De La Bourse De Fonds Publics Et De Change D'Anv., S.C.; Antwerp.	Professional organization.	do		SE
**Banque de Commerce S.A., Brussels	Commercial banking	do	49.8	E
*Soc. Anveroise Pr. Favor La Brouse Finance S.C., Antwerp.	Professional organization.	do	1.1	SE
Foyers Pour Invalides de querre et Aurtes Victimes du Devoir S.A., Antwerp.	Philanthropical organization.	do	27	SE
Association Nationale Belge Contre La Tuberculosis Asbl, Brussels.	do	do	30	SE
*Societe Anonyme Financiere d'Administration et de Gestion, Brussels.	Finance company	Continental Illinois	100	E
*Cooperative de liquidation du Terme de la Bourse de Bruxelles.	Miscellaneous banking.	do	1	SE
*Service Interbancaire, Brussels	do	do	1	SE
*La Caisse d'Avances et de Prets "Le Cap"	do	do	.1	SE
*Institut de Reescompte & de Garantie	do	do	.2	
*Continental Bank SA/N.V., Brussels	Commercial bank	Continental Illinois National Bank & Trust.	100	E
*Comite de Liquidation Operations Terme de la Bourse de Anvers.	Miscellaneous banking.	Continental Illinois	1	SE
*Union Belge de Banques	do	do	1	SE
*Caisse Interprofessionelle Depôts et Virements Titres.	do	do	.8	SE
*GRAC, Societe Anonyme NAMVR	Finance company	First National City Bank.	100	SE
*Spaarkas Financia Antwerp	Savings bank	do	89.4	SE
*Huisinvest N.V. Antwerp	Real estate	do	*.1 *99.8 *.1	SE SE SSE
*Assurantiemaatschappij Financia; Antwerp.	Insurance	do	70	E
Hypoteek en Beheermaatschappij Financia N.A., Antwerp.	Credit agency	do	43.7 20 20	E SE SE
*First Nationa,l City Bank (Belgium) S.A., Brussels.	Commercial banking	do	100	B
*Credivit, S.A. Namur	Consumers finance company.	do	40.1 *19.6 40.1	SE E SE
Citilease S.A., Brussels	Business credit	do	100	BHC
Ramada Europe Inc. (Delaware), Brussels	Nonbanking	do	20	SBHC
Citicorp International Securities S.A, Brussels.	Securities and commodity broker.	do	100	E
*International Factor Belgium S.A., Bussels.	Factoring	First National Bank of Boston.	33.3	SE
Euroclear-Clearance Systems Ltd., Brusses	Communication	First National Bank of Chicago.	.5	SE
United California Bank, Brussels	Commercial Bank	United California Bank.	99.9	B
Heller Factoring S.A.. Brussels	Business credit	American National Bank and Trust.	50	SBHC
Institute de Resscompte et de Garantee, Brussels.	Credit agency	Manufacturers Hanover Bank.	.2	SB
Union Belge des Banques, Brussels	Commercial bank	do	.5	SB
Manufacturers Hanover Bank/Belgium, Brussels.	do	do	99.5	B
Caisse Interprofessionelle de Depots et de Virements de Titres.	Miscellaneous banking.	do	.1	SB
Chemin de fer Belge, Brussels	Transportation	do	.01	SB

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Belgium—Continued				
First Arts Leasing Co. S.A., Brussels	Real estate leasing	Morgan Guaranty	100	E
*Societe National de Investissement; Brussels.	Industrial development bank.	do	.03	ES$_E$
Euroclear Clearance System Ltd., Brussels	Wholesale bank	do	.3 E	S$_{SE}$
Society for World Wide Interbank Financial Telecommunication (S.W.I.F.T.).	Bank wire service	Manufacturers National Bank of Detroit.	T	E
Do	do	National Bank of Commerce of Seattle.	.05	E
Do	do	Republic National Bank of Dallas.	T	E
Do	do	United California Bank	T	E
Do	do	Allied Bank	.06	E
Do	do	Chemical Bank	.2	E
Do	do	Manufacturers Hanover.	T	E
Do	do	Morgan Guaranty	.4	E
Do	do	First National Bank of Chicago.	.1	E
Do	do	Franklin National	T	E
Do	do	Bank of America	.2	S$_E$
Do	do	Irving Trust	10	E
Bermuda:				
Boundsgreen Ltd., Hamilton	Holding company	Wochtovia Bank		E
**Chemical Overseas Finance Corp., Hamilton.	Finance	Chemical Bank	100	E
*Morgan Guaranty Finance Ltd. (Bermuda) Hamilton.	do	Morgan Guaranty	100	E
Boundsgreen Company Ltd., Hamilton	Bermuda holding company.	Fidelity Bank of Rosemont.	10	E
Do	do	Manufacturers National Bank of Detroit.	10	E
Brazil:				
Petroquimica "Uniao," Ltd., Sao Paulo	Chemical producer	Provident National Bank.	.3	E
Banco Internacional S.A., Recife	Commercial bank	Bank of America	50	B
*Petroquimica Uniao S.A., Capuava	Petrochemical products.	do	.7	E
*Champion Celulose S.A., Sao Paulo	Paper manufacturing company.	Chemical Bank	1.8	E
*Continental Assessoria Financiera e Servicos, Ltd., Sao Paulo.	Holding company	Continental Illinois	100	E
*Banco Crefisul de Investimento S.A., Sao Paulo.	Investment bank	Continental Illinois National Bank & Trust Co., Chicago, Ill.	(C)11.8 (P)6.3	E
B.I.F. Administraca. e Servicos S/C, Ltd., Sao Paulo.	Consulting services	Fidelity Bank, Rosemont, Pa.	100	E
The Philadelphia National Bank, Brazil, Ltda.	Administrative management for PNB representative in Brazil.	Philadelphia National Bank.	100	E
Banco de Investmento de Brazil, Rio de Janeiro.	Investment Bank	do	5	E
*Boston Financiera S.A., Sao Paulo, Credito Financiamento e Investmento.	Consumer and corporate sales financing.	First National Bank of Boston.	99.99	S$_E$
Boston S.A., Sao Paulo	Holding company	do	82.72	E
Boston Exportadora-Importadora Ltda., Sao Paulo.	Transportation	do	100	S$_E$
Boston Leasing Arrendamento Representacoes E Servicos Ltda., Sao Paulo.	Business credit	do	100	S$_E$
Karnuba Administracao Participacoes S.A., Sao Paulo.	Holding company	do	100	S$_E$
*Boston Distribuidora de Titulos e Valores Mobiliarios Ltda., Sao Paulo.	Distribution company of securities.	do	99.95	S$_E$
*First Chicago "Servicos", Ltd., Sao Paulo	Representative office.	First National Bank of Chicago	100	E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Brazil—Continued				
*Banco Lar Brasileiro S.A., Rio de Janeiro	Commercial bank	Chase Manhattan Bank.	NA	*B
Banco de Investimentos lar Braziliero, Rio de Janeiro.	Investment bank	do	100	S_E
*Filex Do Nordeste S.A	Rubberware manufacturer; Recife.	do	(P).2	S_{SB}
*Serasn (servicos de Assessoria)	Credit rating company.	do	Nominal	S_B
*Escola Americana Do Rio de Janeiro	Services	do	Nominal	S_B
*Financiera Lar Brasileiro, S.A., Rio de Janeiro.	Finance company	do	99.99	S
*Distribuidora De Titulos E Valores Mobiliarios, Rio de Janeiro.	Dealer in securities and acceptances.	do	100	$_B$ S
*Lar Brasileiro Administracao E Servicos S.A., Rio Janeiro.	Administration and service company.	do	100	S_B
*L.B. Comercio, Turismo E de Servicos, S.A., Rio de Janeiro.	Travel agency	do	C–25 P–100	S_B
*Cia Pernambucana de Borracha Sintetica	Synthetic rubber	do	Nominal	S_B
Adecif, Rio de Janeiro	Credit agency	do	NA	SS_B
Anhembi S.A., Centro de Ferras e Saloes, Sao Paulo.	Services	do	NA	S_{SB}
Crescinco, Sao Paulo	Miscellaneous banking.	do	NA	S_{SB}
Electrobras, Rio de Janeiro	Services	do	NA	S_{SB}
Empresa Braziliera de Astronautica, Sao Jose dos Campos.	Miscellaneous banking.	do	NA	S_{SB}
Ind. Quimica de Alginatos, Natal	Wholesale trade	do	NA	S_{SB}
Primar S.A. Productos Industries Legados do Mar ,Belem .	do	do	NA	S_{SB}
Papelas Ondulado do Nordeste S.A., Recife	Manufacturing	do	NA	S_B
Public Utilities Mandatory	Nonbanking	do	NA	S_B
Investments Supercentro Paulistrania, Sao Paulo.	Services	do	NA	S_B
Embraer—Federal Aeronautics, San Jose	Aeronautics manufacturer.	do	T	S_{SE}
Embraer, Rio de Janiero	do	do	.1	S_B
IMBEC—Instituto Brazileiro de Capitais Brazil.		do		S_{SE}
American Chamber of Commerce; Rio de Janeiro.	Nonbanking	do	NA	S_B
Banco National de Disenvolvimento Economico, Rio de Janeiro.	Development bank	do	NA	S_B
Clubs and associations N/A	Nonbanking	do	NA	S_B
Companie Brazilero de Entrepostoe e Comerico Rio de Janeiro.	Public administration.	do	NA	S_B
*Cia Bebidas Da Bahia, Salvador	Beer manufacturer Salvador Bahia.	do	(P).02	S_{SE}
			NA	S_B E
*Cia Bebidas Da Bahia	do	do	(P)3.8	S_E
			*NA	S_B
*Santista Industrial Do Nordeste S.A., Recife	Textiles	do	(P) .9	S_E
*Primar S.A., Belem	Industrilaized fishery.	do	(P)2.9	S_E
			*NA	S_B
			*.02	S_S
*Malharia Industrial Do Nordeste, S.A., Recife.	Knitwear factory	do	(P)4.4	S_E
			*NA	S_B
*Protecto S.A., Fortaleza	Paint and varnish fortalega.	do	(P)2.5	S_E
			*NA	S_B
*Industria De Azujelos Da Bahia S.A	Ceramics bahin	do	(P)2.0	S_{SE}
			.13	
			*NA	S_B
*Cia Palmares-Hotels Ê Turismo (Sheraton Hotel); Rio de Janeiro.	Hotel	do	(P).2	S_E
Octagonal Empreedimentos, Ltd. Rio de Janeiro.	Holding company	do	33.3	E
			NA	S_B
Compania Nordestina de Papeis, Joao Pessoa.	Paper manufacturer	do	T	S_E
Fazendas Reunidas Quixadia, S.A., Compania Grande.	Cattle project	do	T	S_{SE}
Pina—Intercambio Comercio e Industria e Pesco S.A., Belim.	Industrial fishery	do	T	S_{SE}
Oleama—Oleoginosos Do Maranhao S.A., San Luiz.	Vegetable-oil manufacturer.	do	T	S_{SE}
Compania Sisol do Brazil, S.A., Recife	Fiber manufacture	do	T	S_{SE}
			NA	S_B
				S_{SB}

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Brazil—Continued				
Union Bank Representacao Ltda. Rio de Janeiro.	Representative office.	Union Bank, Los Angeles.	100	E
Citicorp Leasing S/A, Comercio e Arrendamento, Rio de Janeiro.	Business credit	First National City Bank.	100	SBHC
Cresap., McCormick & Paget do Brazil Servicos, Ltda., Rio de Janeiro.	Miscellaneous banking.	do	100	SBHC
Fazenda Canhotinho S/A, Quixeramobim-Ceara.	Agriculture	do	1	SE
Fundo ICI De Investimento, Rio de Janeiro	Miscellaneous banking.	do	1	SE
Banco Crefisul de Investimentos S/A, Sao Paulo.	Bank	do	32.4	SE
CIA de Seguros Argos Fluminense, Rio de Janeiro.	Insurance company	do	20.6	SE
I. B. Corretora Seguros S.A., Rio de Janeiro	do	do	24	SE
Riba—Representacoes Participacoes e Administrocao Ltda., Porto Alegre.	Holding company	do	44.1	SE
Bolsa de Valores do Rio de Janeiro, Guanabara.	Securities broker	do	1	SE
Caixa de Registro e Liquidocao da Bol sa de Valores do Rio de Janeiro, Guanabara.	Miscellaneous banking.	do	1	SE
Fundo de Investimento Finacional, Sao Paulo.	do	do	1	SE
Tibras-Titanio do Brasil, S.A., Bahia	Mining	do	T	SE
*Administradoro Finaco Ltd., Sao Paulo	Real estate	do	100	B
*Companhia de Turismo Promocoes e Administracao, Sao Paulo.	Credit card	do	33.3	E
*Systems S.A., Sao Paulo	Accounting systems company.	do	10	SBHC
*FNC Comercio e Participacoes Ltd., Rio de Janeiro.	Holding company	do	100	E
*FNC Corretora de Titulos e Valores Mobiliarios S.A., Rio de Janeiro.	Brokerage house	do	100	E
*Citybank Credito Financiamento Investimento S.A., Rio de Janeiro.	Consumer lending	do	100	E
*Citybank Distribuidora de Titulos e Valoresmobiliarios S.A., Rio de Janeiro.	Securities dealer	do	100	E
*Piramide Administracao, Assessaria and Servicas S.C. Ltda., sao pauk, rep. office.		Bankers Trust	*99.6 *.4	E SE
Morgan Servicos e Participacoes, Ltda., Sao Paulo.	Financial services	Morgan Guaranty	100	E
Banco Finasa de Investimento, S.A., Sao Paulo.	Private development bank.	do	12.5	E
*Banco de Investimento Credibanco S.A., Rio de Janeiro.	Investment bank	Irving Trust Co	11	E
Irving Trust Assessoria & Consultoria Ltda., Rio de Janeiro.	Representative office.	do	99+	E
Republic International Dallas do Brazil Servicos Financeiros Limitada, Sao Paulo.	Financial consultants.	Republic National Bank of Dallas.	100	E
MHT Servicos e Administracao, Ltda., Sao Paulo.	Limited liability investments.	Manufacturers Hanover Trust.	100	E
*Poliolefinos, S.A. Industria e Comercio, Santo Andre.	Polyethylene plant	do	1	E
		Bank of America	1.3	SE
*Sao Paulo		do	3.9	E
MHT—Servicios e Administracao, Ltda., Sao Paulo.	Limited liability and investment company.	Manufacturers Hanover Trust.	100	E
MH Leasing do Brazil, Sao Paulo	Business credit	do	100	SSBHC
Imarui S.A., Importacao e Exportaco, Sao Paulo.	Transportation	Republic National Bank.	99	SB
Banco Devasa de Investimento, S.A., Rio de Janeiro.	Merchant bank	Security Pacific National Bank.	22.4	SE
*Security Pacific Administracao E Servicos Ltda., Sao Paulo.		do	99.95	E
Ultrafertil	Fertilizers	First Pennsylvania	<1	E
Wells Fargo Assessoria Financiera Ltda., Sao Paulo.	Credit agency	Wells Fargo	100	SE
King Ranch do Brazil, Sao Paulo	Non banking	Kleberg First National Bank, Kingsville, Tex.	40.7	BHC
Knoll International Moveis e Tecidos, Ltda., Sao Paulo.	Manufactering	American National Bank & Trust.	100	SSSSBC

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Bolivia:				
*Estalsa S.A., La Paz	Mining (tin)	Chase Manhattan Bank.	8.3	E
*Compania Minera del Sur S.A., La Paz	Mining	First National City Bank.	10.4	E
British Honduras:				
*Atlantic Bank Ltd., Belize	Commercial banking.	Chase Manhattan Bank.	*20	E
Burundi:				
*Banque Commerciale du Burundi, Bujumbura.	do	Bank of America	.001 .01	*E *S_E
Cameroun:				
**Societe Generale de Banques au Cameroun Yaounde.	do	Bankers Trust Co	10	E
*Societe Camerounaise. de Banque, Yaounde.	do	Morgan Guaranty	5	E
Canada:				
*North Continent Capital Ltd, Vancouver	Investment finance	Bank of America	49	BHC
Montreal Trust Co., Montreal	Trust and real estate.	do	15.5	E
Sure Investments Ltd., Toronto	Credit agency	do	100	S_{BHC}
Industrial Factors Corp. Ltd., Monteal	do	do	100	S_B
Canadian Financial Corp., Montreal	Holding company	do	76	B
Canadian Affiliated Financial Corp., Montreal.	Credit agency	do	100	S_B
Continental Discount Corp., La Sarre, Quebec.	do	do	100	S_B
*Canadian Factors Corp. Ltd., Montreal	Factoring	Bank of Virginia	100	B
Canadian Financial Co-op., Montreal	Holding Company	do		S_B
Continental Finance Corp., La Sarre	Personal credit	do	100	SS_B
Mesco, Inc., Montreal	Real estate	do	100	SS_B
Place Donovan, La Sarre, Quebec	Holding company	do	40	SS_B
Bankers Utilities Corp., B.D.C., Ltd., Toronto.	Transportation	Bankers Trust	100	E
Builders Capital, Ltd., Toronto	Credit agency	Continental Illinois	100	BHC
Sovereign Mortgage Insurance Co., Toronto	Mortgage banker	do	20	BHC
First Chicago Leasing of Canada, Ltd., Toronto.	Personal credit	First National Bank of Chicago.	100	BHC
*Canadian Real Estate Research Corp., Ltd., Toronto.	Real estate	do	25	S_{BHC}
First North America Investment, Ltd., Montreal.	Business credit	First Pennsylvania	100	BHC
First North America Leasing, Ltd., Toronto	do	do	100	BHC
Canadian Equipment Leasing Co. Ltd., Montreal.	Leasing company	Chemical Bank	25	E
Decca Resources Ltd., Calgary	Oil	Wachtovia Bank & Trust	9.5	E
Pursides Gold Mines, Ltd., Calgary	Gold mine exploration.	do	7.9	E
M. M. Builders Funds Ltd., Toronto	Construction lending.	Marine Midland	55	S_E
IMB Leasing, Ltd	Business credit	do	75	S_{SE}
Marmid Financial Services, Ltd., Toronto	Financial company	do	99.98	E
Indianhead Financial Services, Ltd., Windsor.	Leasing	The Detroit Bank & Turst Co.	100	E
*Trinity Managed Investments Ltd., Hamilton.	Holding company	Philadelphia National Bank.	20	E
*Hamilton Group Ltd., Hamilton	Leasing and textiles	do	1.2	E
*Sunningdale Oils Ltd., Calgary	Oil	Wachovia Bank & Trust Co.	1.5	E
*Shorehaven Leasing of Canada, Montreal	Leasing	First New Haven National Bank & South Shore National Bank, Quincy, Mass.	100	E
*Metropolitan Trust Co., Toronto	Trust company	Manufacturers NB, Detroit.	10	E
*Guaranty Trust Co. of Canada, Toronto	do	National Bank of Detroit.	10	E
Canmort Securities Ltd., Toronto	do	do	25	E
Baldwin Piano Co (Canada) Ltd., Ontario	Retail trade	Central Bank & Trust, Denver.	100	BHC
J. P. Morgan of Canada Ltd	Credit agency	Morgan guaranty	100	S_E
North American Financial Company Ltd., Toronto.	Mortgage banker	Worcester County Bank	100	BHC

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Canada—Continued				
**Mercantile Bank of Canada, Montreal	Commercial bank	First National City Bank.	38.7	B
*Abitibi Asbestos Mining Co. Ltd., Montreal	Mining	do	6.8	E
*Andreae Equity Investment Fund Ltd., Toronto.	Mutual fund	do	100	S_{SE}
FNCB Captial Canada Ltd., Toronto	Investment company	do		E
*Hamilton Group Ltd., Hamilton	Leasing business credit.	do	*100	S_{BHC}
*Cable Utility Communication Ltd., Scarborough.	Service company	do	*14.8	S_{BHC}
*Alphatext Systems Ltd., Ottawa	do	do	9.6	S_E
			*12	S_{BHC}
*Citicorp Canada Ltd., Toronto	Leasing	do	100	S_{BHC}
*Export Finance Corp. of Canada	Finance	do	1	S_B
**International Trust Co., Montreal	Trust company	do	100	S_E
Citicorp Venture Capital Canada, Ltd., Toronto.	Investment company	do	100	S_{BHC}
La Verendrye Management Corp. Quebec	Ho ding company	do	10.25	S_{SBHC}
Lynx-Canada Exploration Ltd., Toronto	Mining	do	2	S_{SBHC}
Venture Funding Corp Ltd., Alberta	Holding company	do	11.5	S_{SBHC}
Citicorp Financial Services Canada Ltd., Toronto.	Real estate	do	100	E
Citicorp Financial Services of Ontario, Toronto.	Credit agency	do	100	S_E
I.N. Services Ltd., Ontario	do	Industrial National Bank, Rhode Island.	100	BHC
International Appraisal Co. Inc., Toronto	Real estate agency	do	100	BHC
Continental Financial Corp., Montreal	Credit agency	do	100	S_{BHC}
Industrial International Leasing Ltd., Ontario.	do	do	100	S_{BHC}
*Kingston Spinners Ltd		Chase Manhattan Bank.	35	S_E
*Venus Mines Ltd. (NPL), Vancouver	Mining	do	15.7	S_E
**Arcturus Investment & Development Ltd., Montreal.	Finance	do	100	E
CMB Holdings Ltd., Toronto, Canada	Merchant banking	do	100	E
Britalta Drillings Ltd., Alberta	Nonbanking	Trust Co. of New Jersey.		BHC
Britalta Holdings Ltd., Alberta	do	do	100	BHC
Britalta Petroleums (Eastern) Ltd., Alberta	do	do	100	BHC
Britalta Venezoland Ltd., Alberta	do	do	100	BHC
Jaguar Petroleums Ltd., Alberta	do	do	100	BHC
Wilshire Oil of Canada Ltd., Alberta	do	do	100	BHC
National Overseas Finance Corp., Montreal	Holding company	American National Bank & Trust.	100	S_{SBHC}
Heller-Natofin Ltd., Montreal	Business credit	do	50	S_{BHC}
			50	S_{BHC}
Abbey Finestone (Natofin) Ltd., Montreal	Insurance comapny	do	50	S_{SSBHC}
Bisway Investments Co. Ltd., Montreal	Business credit	do	50	S_{SSBHC}
Fidelity Financial Service Ltd., Montreal	do	do	50	S_{SSBHC}
Heller-Natofin (Ontario) Ltd., Montreal,	do	do	100	S_{SSBHC}
Heller-Natofin (Ottawa) Ltd., Montreal	do	do	100	S_{SSBHC}
Heller-Natofin (Western) Ltd., Montreal	do	do	100	S_{SSBHC}
M. C. Beber Ltd., Toronto	do	do	50	S_{SSBHC}
Miad Investments Ltd., Toronto	do	do	100	S_{SSSBHC}
Walter E. Heller Canada Ltd., Toronto	do	do	100	S_{BHC}
Tri-State Acceptance Co. Ltd., Winnepeg	do	do	100	S_{BHC}
Tri-State Finance Co. Ltd., Winnepeg	Personal credit	do	100	S_{SBHC}
Tri-State Investment Co. Ltd., Winnepeg	do	do	100	S_{SBHC}
Canadian Acceptance Corp. Ltd., Toronto	Credit agency	National Bank of North America.	100	BHC
All-Steel Canada Ltd., Montreal	Manufacturing	do	100	S_{BHC}
C.A.C. Realty Ltd., Toronto	Credit agency	do	100	S_{BHC}
Canadian Acceptance Co., Toronto	do	do	100	S_{BHC}
Johl's Contract Corp., Montreal	Manufacturing	do	100	S_{BHC}
Service Leasing Corp. of Canada Ltd., Toronto.	Business credit institute.	do	100	S_{BHC}
Gibson Greeting Cards Ltd., Toronto	Manufacturing	do	100	BHC
Canadian Acceptance Corp. Ltd., Toronto	Credit agency	do	100	BHC
Picker X-Ray Engineering, Ltd., Montreal	Manufacturing	do	100	S_{BHC}
Picker X-Ray Manufacturing Ltd., Bramalea	do	do	100	S_{BHC}
Picker X-Ray of Canada Ltd., Montreal	Business credit institute.	do	100	S_{BHC}
Lake Simcoe Industries Ltd., Orillia	Manufacturing	Central Bank & Trust Co., Rockford, Ill.	66.7	BHC
Waterloo Metal Stampings Ltd., Ontario	do	Jefferson Trust & Savings, Peoria, Ill.	100	BHC
Drummondville Realties Inc., Drummondville.	Real estate owners	Sterling National Bank & Trust, N.Y.	100	S_{BHC}
Templon Spinning Mills (Can) Ltd., Drummondville.	Nonbanking	do	100	S_{BHC}

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Cayman Islands:				
*Caribbean Bank, Georgetown	Holding company	Continental Illinois	40	E
*Cayman International Trust Co., Grand Cayman Island.	Commercial bank	Bank of New York	15	E
*Central American Exchange Bank, Grand Cayman.	do	Citizens and Southern National Bank.	29.8 49	B E
Do	Development finance	New England Merchants Bank.	20	E
Euratlantis Maritime Bank, Ltd., Georgetown.	do	Indiana N.B., Indianapolis.	20	
*Arawak Trust Co. (Cayman), Ltd., Grand Cayman.	Commercial bank	Marine Midland Bank, New York.	11	S_E
*Wacayman Banking Corp., Ltd., Grand Cayman Reef.	do	Wachovia Bank & Trust Co.	100	E
Cayman Reef Development Corp. Ltd., Georgetown.	Nonbanking	Wachovia National Bank.	25	S_E
Standard & Chase Bank (C.I.) Ltd., St. Heller Jersey, C.I.			43	S_E
Chase Manhattan Trust Cayman Ltd., Cayman Islands.	Banking and trust	do	100	E
Euratlantis Maritime Bank Ltd., Georgetown.	Credit agency	Union Commerce Bank.	20	BHC
Bank of Virginia (Grand Cayman) Ltd., Georgetown.	Commercial bank	Bank of Virginia Co., Richmond.	100	E
Caribbean American Service Investment and Finance Co. Ltd.	Holding company	First National Bank of Boston.	100	E
First Pennsylvania Overseas Development Co.		First Pennsylvania Bank.	100	E
The Latin American Bank, Georgetown	Commercial bank	American Fletcher NB&T, Indianapolis.	33	BHC
World Banking and Trust Corp. (Cayman) Ltd.	Miscellaneous banking.	Bank of America	100	S_E
Privaco Trust Company Ltd., Grand Cayman.	do	do	100	S_{SSE}
Cititrust (Cayman) Ltd., Grand Cayman	do	First National City Bank.	100	B
First Pennsylvania International Ltd., Georgetown.	do	First Pennsylvania Bank.	100	BHC
China:				
*Shanghai Enterprise Ltd., Shanghai	NA	Security Pacific National Bank.	16.6	S_{SE}
*Shanghai Savings and Investment Co., Ltd., Shanghai.	Investment company	do	NA	S_{SC}
Chile:				
*Financiera America Ltda., Santiago	Finance	Bank of America	90	E
*Empressa Minera de Mantos Blancos, S.A., Santiago.	Mining	Chemical Bank	1.2	S_E
*Empresa Minera de Montes Blancos S.A., Santiago.	Metal refinery	Philadelphia National Bank.	1.5	E
Congo (Brazzaville):				
**Societe General de Banque, Au Congo, Brazzaville.	Commercial Bank	Bankers Trust Co., New York.	10	E
*Banque Commerciale Congolaise, Brazzaville.	do	Morgan Guaranty Trust Co.	4.2	E
Colombia:				
*Corporacion Financeria Nacional, Medellin	Finance	*Bankers Trust First National Bank of Boston.	6.4 8.5	S_E E
*Banco del Comercio, Bogata	Commerical bank	Chase Manhattan Bank	*30.3 *12.7	B E
Banco Central Hipotecario, Bogata	Government mortgage bank.	do	1.2	S_E
*Banco de la Republica, Bogota	Central banking	do	2	S_E
*Corporacion Financiera de Caldas, Manizoles.	Investment banking	do	6.3	S_E
*Corporacion Financiera del Norte (COFINORTE), Barranquilla.	do	do	3	S_E
*Corporacion Financiera del Valle, California.	do	do	4.8	S_E
*Acerias Paz Del Rio S.A., Sogomoso	Manufacturing (steel).	do	.2	S_E
Banco Decomercio (Panama) S.A., Panama City.	Commercial bank	do	100	S_E
*Almacenes General De Deposito Merchantil "Almacenar", Bogata.	Warehousing	do	41.4	S_E
Corporation Gran-Colombiana de Ahorro y Vivienda S.A., Bogota.	Savings and loan corporation.	do	30	S_E
Corp. de Ahorro y Vivienda del Vallecali, Colombia.	do	do	10	S_E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Colombia—Continued				
Banco de Caldas Manigales	Commercial bank	First National City Bank.	20 20	B E
Compania Exportadora Cit yexport S.A., Bogota.	Miscellaneous banking.	do	100	E
*Inversiones Citycal S.A., Bogota	Premises company	do	100	SBHC
*Citycredito Ltda., Bogota	Finance	do	75	SE
*Compania Colombiana de Financiamentos (COLFIN), Bogota.	Consumer finance	do	100	E
*Corporacion Financiera de Occidente, Pereira.	Development finance	do	*13.7 *26.3	B E
*Banco Nacional, Bogota	Commercial bank	First Pennsylvania Bankpng & Trust Comiiany.	10	E
*Corporacion Financiera Colombiana, de Desarollo S.A., Bogota.	Development bank	do	2.7	E
*Corporacion Financiera Colombiana, S.A., Bogata.	do	Manufacturers Hanover.	5.6	E
*Industrias Alimenticias Noel, S.A., Medellin.	Manufacturing (food).	Northwestern Bank of M nneapolis.	.9	E
*Compania Colombiana de Tejidos, S.A., Medellin.	Manufacturing (textiles).	Philadelphia National Bank.	.3	SE
**Corporacion Financiera del Valle, California.	Investment banking	Continental Illinois	10	E
**Corporacion Financiera del Norte (COFINORTE), Barranquilla.	Finance	Marine Midland Bank, New York.	20	SE
*Corporacion Financiera del Norte (COFINORTE), Barranquilla.	do	Philadelphia National Bank.	7.7	E
*Banco de Occidentale, California	Commercial banking.	Citizens & Southern National Bank.	9.9	E
*Corporacion Financiera del Valle, California.	Investment banking.	do	4.8	E
*Corporacion Financiera Colombiana de Desarollo Industrial, Bogota.	Finance	Citizens & Southern	.2	E
*Gas Natural Colombiano S.A., Barranquilla	Gas distributor	Chemical Bank	5.6	E
*Corporacion Financiera de Caldas, Manizoles.	Development finance.	Fidelity Bank	3	E
*Do	Finance	Manufacturers National Bank, Detroit.	3	E
*Do	do	Wells Fargo	3.7	SE
Costa Rica:				
*Financiera de America S.A., San Jose	do	Bank of America	51	E
*Bank of America, S.A., San Jose	Commercial Bank	do	100	B
*Chase Manhattan Costa Rica, S.A., San Jose.	Finance	Chase Manhattan	79.9	E
Costa Rica Tennis Club, San Jose	Tennis club	do		SE
*Textilera tres Rios S.A., San Jose	Manufacturing	do	19.1	E
*Costa Rican Farms S.A., San Jose	Agriculture (inactive).	do	50 Preferred 100	E
*Intropica Inc., San Jose	Poultry	do	Warrants	E
*Desarolle Agrapecuario del Disqueo S.A., San Jose.	Rice and cattle farm	do	(C) 12.5 (P) 100	E
*Corporacion International de Boston, S.A., San Jose.	Financing and leasing.	First National Bank of Boston.	51.7	E
Latin American Bank, The, San Jose	Commercial bank	Fidelity Union Bank, Newark.	15.9	BHC
*First National City (Costa Rica), San Jose	Finance	First National City Bank.	100	E
*Banawaldeck S.A., San Jose	Agriculture	do	5 *5	E SBHC
*Compania del Tranvia de Cariari S.A., San Jose.	do	do	25	E
*Compania International De Banana S.A., Port Limon.	do	do	26.8	E
*Almacenadora S.A., San Jose	Warehouse investment company.	Marine Midland Bank, New York.	22	SE
*Crece S.A., San Jose	Finance	do	20	SE
Financiera del First Pennsylvania S.A., San Jose.	Credit agency	First Pennsylvania National Bank.	51	SE
*Corporacion Costarricanse de Financiamento Industria S.A. (COFISA), San Jose.	Finance	Society National Bank of Cleveland.	4.4	E
Finance Generales S.A., San Jose	Nonbanking	Moore State Bank, Texas.	35	BHC
Cuba: *Compania Antillana de Acero S.A	Steel	Chase Manhattan	1.5	SE

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Denmark:				
Picker Audrex X-Ray A/S, Copenhagen	Manufacturing	National Bank of North America.	100	S BHC
Nordisle Factoring A/S, Copenhagen	Business credit	American National Bank & Trust.	10	S BHC
Dominican Republic:				
*Agrindustrias Dominicanas S.A., Santo Domingo.	Finance	Bank of America	11.6	E
Corporacion Financiera Asociada S.A., Santo Domingo.	do	do	20	E
*Compania Financiera Dominicana S.A., Santo Domingo.	Industrial development.	Manufactuer Hanover Trust.	2.5	E
Banco Hipotecario, Santo Domingo	Mortgage banking	Chase Manhattan Bank	4	E
Ecuador:				
Inverseones Financieros S.A., Quito	Credit agency	First National City Bank.	100	E
*Almacenera del Ecuador S.A., Guayaquil	Warehousing facilities.	Bank of America	18.3	E
*Compania Financiana Ecuatoriana de Desarollo S.A., Quito.	Private development bank.	Continental Illinois National Bank & Trust Co., Chicago.	7.2	E
*COFIEC S.A., Quito	Development finance company.	Fidelity Bank, Rosemont, Pa.	3.1	E
*Do	Investment and development finance company.	Wells Fargo Bank N.A., San Francisco, Calif.	3.6	S E
*Ecuatoriana de Desarrollo S.A., Quito		Franklin National	.6	S E
*Banco de Guayaquil	Commercial banking	Manufacturers Hanover.	.9	E
*DO	do	Bank of America	*2.3 *.3	E S E
*Do	do	National Bank of North America.	.6	E
*Do	do	Continental, Illinois	*2 2	E BHC
*Do	do	Wells Fargo	1	E
*Do	do	Allied Bank International.	1.1	E
*Do	do	Marine Midland	<1	S E
*Do	do	Girard	.008	E
*Do	do	Provident National	<1	E
*Do	do	Fidelity	Option	E
*Do	do	Citizens and Southern	.6	E
El Salvador: **Financiera de Desarrollo e Inversion, San Salvador.	Financing company	Wells Fargo Bank N.A., San Francisco.	14	S E
England:				
Wabaco Trust (Jersey) Ltd., Jersey Channel Is.	Miscellaneous banking.	Bank of America	100	S E
Bank of America (Jersey) Ltd., St. Hebier	Credit agency	do	100	B
Alpine Holding Ltd., London	Manufacturing	do	4	S B
Banam Naminees Ltd	Holding company	do	100	S B
European Brazilian Bank, London	Commercial banking	do	17.5 17.5	S B S B
Multinational Properties Ltd	Real Estate	do	22.5	S B
Iran International Overseas Bank, London	Merchant bank	do	10	S B
Bank America—Williams Glyn Common Factors Ltd., London	Finance	do	51	E
Pentos Assets Ltd. (formerly Forty-Second Legibus Ltd.) London	Investment company	do	10	E
*Bank of America, Ltd. (London)	Merchant bank	Bank of America N.T. & S.A., San Francisco, Calif.	75 90	B E
*Bankers Trust International, Ltd., London.	do	Bankers Trust Co., New York.	100	SS E
*Hestair, Ltd., London	Office and mechanical equipment.	do	5.75	SSS E
*Hurst & Mallinson, Ltd., Vorkshire	Manufacturing (textiles).	do	14.2	SSS E
*Cook & Watts, Ltd., London	do	do	1.5	SSS E
*Dufay Bitumastic, London	Manufacturing (paint).	do	5.5	SSS E
*Metropole Industries, Ltd., London	Engineering services.	do	5.1	SSS E
*Brinfam, Ltd., Colchester	Manufacturing (boats).	do	35	SSS E
*Anglo Continental Investment & Finance Co., Ltd., London.	Investment and finance company.	do	NA	SSS E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
England—Continued				
*Carousel Parties Ltd. (Lingerie), Berkshire.	Sale of goods by party plan.	Bankers Trust Co., New York.	25	SSSE
*Muscial & Plastic Industries Ltd., London	Manufacturing distribution (musical instruments).	do	21.2	E
*Rodo Investment Trust, Ltd., London	Investment company.	do	59.2 40.8	SE SE
*Unitech Ltd., London	Electric equipment manufacturing and distribution.	do	4.7	E
**Bankers Trustee & Executor Co., Ltd., London.	Nominee	do	100	E
*GM Firth (Metals) Ltd. Bradford	Steel manufacturers	do	15 *8.8	E SSSE
*Howard & Wyndham Ltd., London	Leisure and entertainment company.	do	.7	SSSE
*Lex Hotels (Heathrow) Ltd., London	Property company	do	4.3	SSSE
*New Broad Street Properties, Ltd., London	Retail trade	do	100	SSSE
*Rodocarchi Leasing Ltd., London	Leasing company	do	100	SSE
*Rodo Nominees Ltd., London	Nominees corporation holding company.	do	100	SSSE
*BTI Nominees Ltd., London	Nominee company	do	100	SSSE
*Hevea (Burma) Co., London	Imports (non-trading).	do	14	SSSE
*Investors Planning Assoc. Ltd., Watford	Life insurance broker.	do	19.4	SSSE
*Kennetside Holdings Ltd., Berkshire	Color matching company.	do	21	SSSE
*Kinghurst Financial Trust Ltd., Sussex	Finance company	do	20.8	SSSE
*Y. J. Lovell (Holding) Ltd., Gerrards Cross	Construction company.	do	Nominal	SSSE
*PW Mason Ltd., Ripley	Engineering curl, and building contractors.	do	7.4	SSSE
*Music Sales (UK) Ltd., London	Music publisher	do	5	SSSE
*Rentaplay Ltd., Essex	Manufacturers playground equipment and nursery operators.	do	25	SSSE
*S.C.A. Freight, Ltd., London	Shipping and forwarding agents.	do	33.3	SSSE
*Rentaplay (Aquatclo), Ltd., Essex	Sporting and leisure facility operators.	do	17.9	SSSE
British Anzani, Ltd., Mainstone	Nonbanking	do	9.3	SSSE
Brook Merchantile Trust, Ltd., Rotherham	Credit agency	do	14.3	SSSE
Clan Hotels, Ltd., Glasgow	Real estate	do	20	SSSE
Clansman Holdings, Ltd., Atornoway	Manufacturing	do	16.4	SSSE
Countryside Properties, Ltd., London	Real estate	do	.3	SSSE
Court Line, Ltd., London	Transportation	do	.5	SSSE
Export Times (Cobb-Thornton), Ltd., London.	Services	do	5	SSSE
Grand Metropolitan Hotels, Ltd., London	Holding company	do		SSSE
Hume Holdings, Ltd., London	Miscellaneous banking.	do		SSSE
Inn Films, London	Credit agency	do	.7	SSSE
J. E. Sanger Ltd., London	Holding company	do	.3	SSSE
Jessel Securities, Ltd., London	Credit agency	do	.1	SSSE
Joseph Peck Holdings, Ltd., Rotherham	Holding company	do	1.4	SSSE
Northern Commercial Trust, Ltd., Manchester.	Merchant bank	do		SSSE
Nottingham Construction Supplies Ltd., Nottingham.	Construction	do		SSSE
Panvale Properties Ltd., Maidstone	Real estate agency	do	15	SSSE
Sidney C. Banks, Ltd., Sandy, Bedfordshire	Agriculture	do	.8	SSSE
Sound Diffusion, Ltd., Portslade	Credit agency	do	.5	SSSE
Triumph Investments Ltd., London	Miscellaneous banking.	do	.1	SSSE
Yorkshire Discount Stores Ltd., Teeside	Bank	do	12.5	SSSE
Ocean Bulkers (U.K.) Ltd., London	Transportation	do	12	SSSE
*Bank of New York (Nominees) Ltd., London.		Bank of New York	100	E

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
England—Continued				
Capital Trust Jersey Ltd., Jersey Channel Islands.	Investment company	Chase Manhattan		SSE
Standard and Chase Bank (C.I.) Nominees Ltd., Jersey, C.I.	Holding company	do	100	SSE
*Standard and Chartered Banking Group Ltd., London.	Commercial bank	do	13	BE
*International Investment Corp. for Yugoslavia, London.	Development bank	do	3.7	E
*Equipment Leasing Co., London	Lease equipment	do	*30 *12.9	E SE
*Scottish Timber Products, Northumberland.	Chip board plant	do	11.1	E
*Sheerness Iron & Steel Co., Kent	Steel mill	do	10.5	E
*Orion Bank Ltd	Merchant bank	Chase Manhattan Bank NA.	*20	B
*Orion Termbank Ltd	Medium-term credit institution.	do	20	E
*Orion Multinational Services, London	Research, development and marketing services.	do	16.7	E
Chase Manhattan Ltd., London	Banking and trust	do	100	E
Libra Bank Ltd., London	Merchant banking	do	26.1	E
Orion Leasing Holdings Ltd., London	Leasing company	do	16.5	SE
Brown Harriman & International Banks, Ltd., London.		Pittsburgh, National Bank.	10	E
*London Multinational Bank, Ltd., London	Merchant bank consortium.	Chemical Bank, New York.	30	E
*Chemical Bank Trustees Co., Ltd	Holding company	Chemical Bank	100	B
**Chembank Nominees Ltd., London	Custodian and nominee services.	do	100	E
Continental Eurasia Ltd., London	Services	Continental Illinois	100	BHC
Continental Illinois Ltd., London	Merchant bank	do	100	BHC
**H. & H. Factors Ltd., London	Factoring	Continental Illinois National Bank & Trust Co.	10	E
*Compass Finance (United Kingdom) Ltd., London.	Limited finance transactions.	First National Bank of Miami.	100	SBHC
Boston Trust & Savings Ltd., Herefordshire	Commercial bank	First National Bank of Boston.	100	SBHC
First National Boston Ltd., London	Merchant bank	do	100	SBHC
Old Colony Nominees Ltd., London	Holding company	do	100	B
**International Factors Ltd., London	Factoring	do	25	E
*Crocker Nominees Ltd., London	Nominee company	Crocker National Bank, San Francisco.	100	BHC
*United International Bank Ltd., London	Merchant bank	do	10	E
Overseas Bankers Club (Premises) Ltd., London.	Real estate owner	Irving Trust Co., New York, N.Y.	.01	SE
*International Commercial Bank Ltd., London.	Commercial bank	do	22	B
**Irving Trust Co. (Nominees) Ltd., London.	Nominee company facilitates securities transfers.	do	100	E
First Chicago Investments (United Kingdom) Ltd., London.	Holding company	First National Bank of Chicago.	99	SE
Avenue Close Ltd., London	Real estate	do	1	SSE
Bryant Holdings Ltd., Birmingham	do	do	1.56	SSE
Estates & Agencies Holdings Ltd., London	Holding company	do	12.5	SSE
Fairdale Textiles Ltd., London	Retail trade	do	13.4	SSE
Law Land & Co. Ltd., London	Real estate	do	.04	SSE
Lyles (S.) Ltd., London	Manufacturing	do	1	SSE
Parkes Knoll Ltd., High Wycombe	do	do	.2	SSE
Procor Ore Ltd., London	Nonbanking	do	75	SSE
Reliable Properties Ltd., London	Real estate	do	2.1	SSE
Stoddard Holdings Ltd., Glasgow	Manufacturing	do	5.3	SSE
First Chicago Fiduciary and Investment Services Corp., London.	NA	do	NA	BHC
First Chicago Asset Management Corp., London.	Miscellaneous banking.	do	100	SBHC
First Chicago Leasing (United Kingdom) Ltd., London.	Credit agency	do	100	SBHC
First Chicago Shipping Corp. No. 1, London	do	do	100	SBHC
First Chicago Shipping Corp. No. 2	do	do	100	SBHC
First Chicago Shipping Corp. No. 3	do	do	100	SBHC
First Chidago Shipping Corp. No. 4	do	do	100	SBHC
First Chicago Shipping Corp. No. 5, London	do	do	100	SBHC

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
England—Continued				
Commercial Bank of Wales	Commercial bank	First National Banks of Chicago.	20	SE
First Chicago Holdings (United Kingdom), Ltd.	Credit agency	do	1	SE
Stylo Shoes Ltd., London	Retail trade	do	1.6	SSE
Tower Assets Ltd., London	Forestry	do	.2	SSE
United Kingdom and Overseas Investment Co. Ltd., London.	Investment company	do	.2	SSE
William Hudson Group Ltd., London	Holding company	do	.5	SSE
Wilson (Connolly) Holdings Ltd., Northampton.	Real estate	do	2.5	SSE
*First Chicago, Ltd., London	Merchant bank	First National Bank, Chicago, Ill.	66.7	E
*First Chicago Nominees Ltd., London	Nominee company	do	100	E
*First Chicago, Ltd., London	Merchant bank	do	100	E
First International Bancshares Ltd., London	do	First National Bank in Dallas.	100	BHC
London Interstate Bank, Ltd., London	Banking	First National Bank, Atlanta.	16.1	E
*Sterling Industrial Securities Ltd., London	Merchant bank	Franklin National Bank, New York.	10	E
Philadelphia International Co. Ltd., London		Philadelphia International Bank.	100	E
Jenshire Ltd., London	Holding company	do	15	E
First National City Bank (Channel Islands) Ltd., St. Helier.	Commercial bank	First National City Bank.	100	B
First National City Credit (N.I.) Ltd., Belfast	Holding company	do	50 50	SB SB
First National City Nominees (N.I.) Ltd., Belfast.	do	do	50	SB
First National City Securities (N.I.) Ltd., Belfast.	do	do	50 50	SB SB
Citicorp International Bank Ltd., London	Miscellaneous banking	do	100	BHC
Citicorp Venture Capital London, Ltd., London.	Investment company	do	100	SBHC
Stock and Trade Facilities Ltd., London	Credit agency	do	100	SSE
York Campbell Credit Ltd., Lincoln	Personal credit	do	5.26	SSE
Citibank Assurance Ltd., Lincoln	Insurance activity	do	100	SE
Citibank Trust Nominee Ltd., Lincoln	Holding company	do	100	SSE
Citibank Commercial Ltd., Lincoln	Nonbanking	do	100	SE
Citibank Credit Ltd., Lincoln	Personal credit	do	100	SE
Citibank Leasing Ltd., Lincoln	Business credit	do	100	SE
Citibank Trust Co. Ltd., Lincoln	Credit agency	do	100	SE
Suparquest Ltd., London	Holding company	do	25	SBHC
First National City Venture Capital Co. Ltd., London.	do	do	50	SBHC
Do	do	do	50	BHC
Citibank Financial Trust Ltd., U.K.	Credit agency	do	100	E
Campbell Discount Co. Ltd., Lincoln	do	do	100	SE
Avon Trust Ltd., The, Lincoln	Business credit	do	100	SSE
Campbell of Lincoln Finance Ltd., Lincoln	Personal credit	do	100	SSE
Lincolnshire General Finance Co. Ltd., Lincoln.	Credit agency	do	100	SSE
**National City Nominees Ltd., London	Nominee and trustee.	do	50	SBB
*Datamart Ltd., London	Data preparation center.	do	100	SE
*Contract Computing Ltd., London	Financial data processing services.	do	100	SE
National City Financial Trust Ltd., London	Consumer finance	do	100	E
*N.C.B. Trust Co., London	Holding company	do	66.7 33.3	B SB
*National & Grindlays Bank Ltd., London	Commercial bank	do	40	
*Computer Projects Ltd., London	Computer service bureau.	do	100	E
*New York London Trustee Co., Ltd., London.	Trust and investment services.	do	.1 99.9	SB B
FIMS Ltd., London	Miscellaneous banking.	National Bank of Detroit.	24	SB
WAB Leasing Ltd., London	Business credit	do	100	SB
Western American Eurodeal Ltd., London	Security and commodity broker.	do	100	SB
*Western American Bank (Europe) Ltd., London.	International merchant bank.	National Bank of Detroit.	*22.5	B
*Burston & Texas Commerce Bank Ltd	Merchant bank	Texas Commerce Bank NA, Houston Tex.	35	B

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
England—Continued				
Portsoken Nominees Ltd., London	Nonbanking	Texas Commerce Bank	100	SB
Rothschild Intercontinental Bank Ltd., London.	Commercial bank	National City Bank of Cleveland.	11.2	BHC
First Maryland Ltd., London	Merchant bank	First National Bank of Maryland.	25	B
**Arbuthnot Latham & Co., Ltd., London	do	Philadelphia National Bank.	9.4	E
*Western Credit Holdings, Ltd., Plymouth	Consumer finance company.	do	24	E
*Rothschild Intercontinental Bank Ltd., London.	Merchant bank	Seattle-First National Bank, Seattle, Wash.	11.6	B
*Western American Bank (Europe) Ltd., London.	International merchant bank.	Security Pacific National Bank, Los Angeles.	*12.0 8	E SE
*Western American Bank (Europe) Ltd., London.	do	Wells Fargo Bank NA, San Francisco.	22.5	E
*Wells Fargo, Ltd., London	Merchant bank	do	100	SE
*Penn Investments (London) Ltd	Investment company	Girard Trust Bank, Bola Lynwood, Pa.	100	E
*Penn Sharp, Ltd	Tax consulting	Girard	76	SE
Penn Computer Services Ltd., London	Services	Girard Trust Bank	100	SE
*Anglo Continental Finance & Investment Co., Ltd., London.	Merchant bank	Union Bank, Los Angeles, Calif.	7.4	E
Investico Overseas Holdings, Ltd		do	10	E
*Atlantic International Bank, Ltd., London	International consortium bank.	Manufacturers National Bank, Detroit, Mich.	25	B
**Commercial Export Credit Co., London	Investment financing.	Manufacturers Hanover Trust Co.	100	E
*Manufacturers Hanover, Ltd., London	Merchant bank	do	75	E
**Manufacturers Hanover Executor & Trustee Co., Ltd., London.	Trustee corporation	do	100	A
*Manufacturers Nominees, Ltd., London	Holding company	do	100	SE
Anglo-Romanian Bank, Ltd., London	Banking	do	20	E
Iran Overseas Investment Bank, Ltd	Development bank	do	10	E
Ocean Finance & Trust Corp., Ltd., Channel Islands.	Commercial bank	do	100	E
Rolls Royce Motor Holdings, Ltd., Crewe	Manufacturing	do	1.3	SE
Ocean Acceptance (London) Ltd	Credit agency	do	100	SE
Ocean Nominees (Guernsey) Ltd., St. Peter Pt., Guernsey Channel Islands.	Holding companies	do	100	SE
Hanover Nominees Ltd., London	do	do	100	B
Caterquest Ltd., London	Business credit	Marine Midland	------	SSSE
Flightchoice Ltd., London	do	do	100	SSSE
Lambrech Ltd., London	do	do	------	SSSE
Wordmoor Ltd. London	do	do	100	SSSE
Corylus Investments, Ltd	do	do	100	SSE
London and Western Trust Ltd	Holding company	do	5	SSE
Origin Publishing Co. (Medical) Ltd	Communication	do	24	SSE
*Marine Midland Bank New York (Nominees) Ltd., London.	Nonimee company	do	100	E
*International Marine Banking Co., Ltd. (INTERMARINE), London.	Merchant bank	do	99.6	SE
*Europension, Ltd., London	Pension services	The Northern Trust Co., Chicago, Ill.	15	E
*London Multinational Bank, Ltd., London	Merchant bank	do	20	B
*London Interstate Bank, Ltd., London	do	Maryland National Bank, Baltimore.	16.4	B
Do	do	Indiana National Bank of Indianapolis.	16.1	E
*Do	do	Mercantile Trust Co., St. Louis, Mo.	16	E
First Boston (Europe) Ltd., London	Miscellaneous banking.	Mellon National Bank	33.3	BHC
H.F.C. Trust Ltd., London	Credit agency	Morgan Guaranty Trust.	24.9	SE
Morgan Grenfell Holdings Ltd., London	Holding company	do	31.7	SE
North Sea Assets Ltd., London	Investment company.	do	1	SE
Morgan & Cie International, Ltd., London	Miscellaneous banking.	do	33.3	SE
Euro-Clear Clearance System Ltd., London	International securities clearance.	do	3.3	E
Kimberly Oil Co., Ltd., London	Trustee company	do	18	E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
England—Continued				
Unifinance (U.K.) Ltd. (England), London	NA	National Bank of North America.	50	BHC
Hillcrest Engineering Ltd., Birmingham	Manufacturing	Jefferson Trust & Savings, Peoria.	50	BHC
First Chicago Holdings (U.K.) Ltd., London	Credit agency	American National Bank & Trust.	1	S_{SBHC}
Wehco, Ltd., London	NA	do	100	S_{SBHC}
H & H Factors Ltd., London	Business credit	do	63	S_{BHC}
E. T. Barwick (Sales Account), Ltd., London	do	do	99	S_{SBHC}
Keep Brothers (Trading Capital) Ltd., London.	do	do	100	S_{SBHC}
*UST London Ltd	Investment management.	U.S. Trust Co	100	E
Lontrust Management Ltd., London	Miscellaneous banking.	do	100	S_{E}
Fiji:				
Investors Pacific Ltd., Suva	Credit agency	Bank of Hawaii	100	BHC
Finland:				
*Industrialization Fund for Finland, Helsinki.	Development bank	Bank of America N.T. & S.A., San Francisco, Calif.	1.3	E
*Do	do	Chemical Bank, New York.	.4	E
*Do	do	Irving Trust	------	E
*Do	do	Manufacturers Hanover.	.7	E
*Do	do	Northwest Bancorporation, Minneapolis.	1.1	E
*Do	do	Society National Bank, Cleveland.	.5	E
*Soumen Interactors Oy, Helsinki	Factoring Corporation.	First National Bank of Boston.	10	S_{E}
France:				
*Immobiliere France SA, Paris		Bank of America	.2	S_{SE}
**Societe Anonyme Immobiliere du 28 place Vendome, Paris.	Real estate holding	do	100	E
Sofet-Sofidi, Paris	Financing company	do	4.8	E
Societe de Cooperation Industriele Franco-Sovietigue, Paris.	East-West trades	do	25	E
Banque de la Societe Financiere Europeene, Paris.	Finance	do	6	E
Compame Generale de Credit-Bail, Lille	Equipment leasing	do	25	E
Cie Financiere de Paris et des Pays-Bas, Paris.	Credit agency	do	.2	E
Banque Ameribas (Luxembourg), Paris	Commercial bank	do	11 29	BHC B
*Syneurope European Information Systems, Paris.	Holding company computers.	do	12.1	E
*Societe de Gestions de Fonds de Placements, Paris.	Miscellaneous banking.	Bankers Trust	10	E
*Essor Gastion, Paris	Investment management.	Chase Manhattan	50	E
*Union Financiere Pour le Developement de l'Economie Arialiere (Unigrain), Paris.	Export finance	do	1.4	E
Financiere D'Investissements Et De Construction Immobiliere, Paris.	Real estate development.	do	100	E
**Union Provinciale Immobiliere, S.A., Paris.	Real estate	do	94.6	E
Sci Barrault Colonie, Paris	do	do	4	S_{E}
Sci Rives de L'Yerres, Yerres	do	do	15	S_{E}
Sci Foch Faisanderie, Paris	do	do	5	S_{E}
Sci Reuilly Daumesnil, Paris	do	do	10	S_{E}
Sci Boliver Buttes Chaumont, Paris	do	do	25	S_{E}
Sci Juvena Porte D'Orleans, Montrouge	do	do	25	S_{E}
Sci Tour de Bovery, Paris	do	do	20	S_{E}
Sci Centrada Toulouse, Toulouse	do	do	24	S_{E}
Sci Hotel de Bordeville, Paris	do	do	20	S_{E}
Sci Cite de Fleurs, Paris	do	do	25	S_{E}
Sci Rue Mathurin Moreau, Paris	do	do	25	S_{E}
Sci Les Seracs, Paris	do	do	20	S_{E}
Sci L'Amiral, Paris	do	do	15	S_{E}
Sci Monte-Carlo Residence Palace, Monte Carlo.	do	do	20	S_{E}
Sci Hameau Du Belvedere, Francheville	do	do	25	S_{E}
Sci Lutece 2000, Paris	do	do	5	S_{E}
Sarl Ser Nice, Nice	do	do	25	S_{E}
SICOV Planinter	Miscellaneous banking.	do	4	S_{E}
*S.I.D.U.S./S.A. En Liquidation (M. M. Bisschoff).	Petrol company in liquidation.	do	1.35	S_{E}

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
France—Continued				
*Credit Commerciale de France, Paris	Commercial bank	Continental Illinois	4.1	S_E
*Societe de Participations Industrielle du Sud-Est, Lyon.		Fidelity Bank	100	S_E
*Banque Europeene de Financement, Paris.	Commercial bank	do	100	E
*Societe Francaise de Factoring, Paris	Factoring	First National Bank of Boston.	15	S_E
Soffinova, Paris	Credit agency	do	3.37	S_{BHC}
*Societe de Construction et d'Exploitation aux Champs Eysees, Paris.	Real estate	First National City Bank.	*10.5 *89.1	S_A A
**Societe Eysees Boetie, Paris	do	do	99.8	A
*Union Financiere de Paris, Paris	Finance and real estate.	do	NA	S_E
Societe Auxiliaire D'Equipements, Dijon	Credit agency	do	88.9	S_E
Societe de Gestion et de Conseil en Organization, Dijon.	Services	do	34	S_{SE}
*Imofi S.A., Paris	Real estate	do	NA	S_E
*Sufrimo, Paris	do	do	NA	S_E
Citicorp Location (France) S.A., Paris	Business credit	do	100	E
**Banque Internationale Pour l'Afrique Occidentale, Paris.	Commercial bank	do	49	B
*Societe Internationale d'Etrietes et d'Investisements Immobiliers en France, S.A., Paris.	A reality investment corporation.	do	12.5	E
Societe de Credit Pour l'Acquisition et l'Amelioration des Immeubles, S.A.	Credit agency	do	79.8	S_E
Societe Civile Immobiliere, Cirque-Champs Elysees, Paris.	Holding company	do	98	S_{SE}
Citibail S.A., Paris	Business credit	do	100	E
*Banque Vernes et Commerciale de Paris, Paris.	Commercial bank	Franklin National Bank, New York.	10	E
*France Cartes S.A., Paris	Consumer credit card.	Marine Midland Bank, New York.	10	S_E
L'Union Internationale le Financement et de Participation.	Credit agency	do	19.4	S_E
**Union Auxiliore de Financement S.A. (UNIMAR), Paris.	Finance	do	**50	S_E
*Banque de l'Union Europeene (BUE), Paris.	Commercial and investment bank.	do	***19.1	S_E
**Morgan & Cie SA, Paris	Investment bank	Morgan Guaranty	70	E
*Cie General des Faux, Paris	Public service	do	.5	S_E
*Laboratoires Chibret S.A., Clermont Ferrand.	Pharmaceutical manufacturing.	do	10	E
*Carrefour, Paris	Supermarket	do	15	S_E
*Banque de la Construction et des Travaux Publics, Paris.	Bank	do	.5	S_E
*General Morgan Leasing S.A	Leasing	do	49.7	S_E
*Morgan & Cie International S.A., Paris	Miscellaneous banking.	do	33.3	S_E
*Epargne Interessement, Paris	Investment management company.	do	23	S_E
Caisse de Gestion Mobiliere, Paris	Commerical bank	do	10	S_E
Guyenne & Gascogne, Bayonne	Retail trade	do	.5	S_E
Maisons Phenix, Paris	Construction	do	.5	S_E
Viniprix, Paris	Retail trade	do	.5	S_E
Laboratoires Lederle-Novalis C/S, Oullines	Manufacture and sale of drugs.	do	10.9	E
Bail Equipment, Paris	Leasing corporation	Provident National Bank.	2	E
Unigraino, Paris	Wholesale trade	Manufacturers Hanover	1.4	S_B
Societe Immobilere de la Place du Marche Sainte-Honore, Paris.	Real estate	do	100	B
Manufacturers Hanover Banque Nordique, Paris.	Commercial bank	do	60	B
Japon Investissements, Paris	Miscellaneous banking.	do	1	S_B
Sie Immobiliere Pour L'Industrie & Le Commerce, Paris.	Real estate	do	.7	S_B
Sie Lyonnaise de Ventilation Industriellee, Lyon.	Nonbanking	do	.01	S_B
*Rivaud & Cie, Paris	Merchant bank	Northern Trust Co., Chicago.	5	E
*Banque Worms et Cie S.A., Paris	"banque d'affaires"	Philadelphia National Bank.	7.5	E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
France—Continued				
Factofrance Heller S.A., Paris	Business credit	American National Bank & Trust.	5	SBHC
Societe Art Fonctinonel, SARL, Metz	Manufacturing	do	95	SSSSBHC
Richard A Ginovi France, S.A., Paris	do	do	70	SSSSBHC
E.L.S.A., Paris	do	do	32.7	SSSSBHC
Knoll International France S.A., Paris	do	do	100	SSSBHC
*Banque Occidentale Pour l'industrie et le Commerce, Paris.	Merchant bank	*Union Bank, Los Angeles, Calif.	10	E
		*Central National Bank, Cleveland Ohio.	10	E
Credinter, Paris	Miscellaneous banking.	U.S. Trust Co	.76	SSE
*U.S.T., Paris	do	do	100	SE
Sofinnova, Paris	Credit agency	Wells Fargo	3	SE
Picker France, Malakoff	Manufacturing	National Bank of North America.	100	SBHC
Gabon:				
**Union Gabonaise de Banque, Libreville	Commercial bank	Morgan Guaranty Trust Co.	15	E
Germany:				
**Bankhaus Centrale Credit A.G., Moenchen-Gladbach.	do	Bank of America	100	E
*BT Holding GmbH, Frankfurt	Holding company	Bankers Trust	100	SE
*Deutsche Unionbank, Frankfurt	Commercial bank	do	42.6 25	SE SSE
Optina Anlaga und Biteiligungs-gesellschaft, GmbH, Munich.	Nonbanking	do	5.9	SSE
Privatdiskont Ag, Frankfurt	Miscellaneous banking.	do	.4	SSE
Star Turhenwerhe GmbH, Andermach	Manufacture	do	.3	SSE
Vereinigung fur Betriebswirtschaft	Miscellaneous banking.	do		SSE
Beteiligungsgesellschaft fur Industrie, Haudiede Handel and Verhehe GMB, Hamburg.	Security and commodity broker.	do	4.2	SSE
Deutsche Gesellschaft fur Wertpapiersparen GmbH, Frankfort.	Investment company.	do	4	SSE
I. N. Eberle & Cie, GmbH, Augsburg	Manufacturing	do	1.7	SSE
Lombordkasse AG., Frankfurt	Bank	do		SSE
Datensgstem Beteiligungsgesellschaft m.b.h., Frankfurt.	Holding company	Morgan Guaranty	100	E
Bankhaus Koch, Loutersen & Co., Frankfurt.	Commercial bank	First Wisconsin	NA	BHC
Bayer Aktiengesellschaft, Leverkusen, Leverkusen.	Nonbanking	Manufacturers Hanover Trust.	.01	SB
Allgemeine Deutsche Credit, Austalt	Credit agency	Wells Fargo	25	SE
C. Bechstein. Pianofortefabrik GmbH, Berlin.	Manufacturing	Central Bank & Trust Co., Denver.	73.6	BHC
Picker Roentgen GmbH, Espelkamp	do	National Bank of North America.	100	SSBHC
Picker International Operations FmbH, Auringin.	do	do	100	SBHC
Knoll International GmbH, Stuttgart	do	American National Bank & Trust	100	SSSBHC
Heller Foctoring Bank A.G., Mainz	Business credit	do	100	SBHC
*Citicorp Leasing Deutschland GmbH, Dusseldorf.	Leasing data processing machines.	First National City	100	SBHC
*Prodata International Datenverarbeitung, Frankfurt.	Computer services	do	100	SSBHC
GTB-Gesellschaft fur Transatlantische Beteilangen mbH, Dusseldorf.	Commercial bank	do	49.2	B
Kundenkreditbank Kommandit Gesellschaft auf Actien, Dusseldorf.	do	do	49.2	SB
Trinkaus und Burkhardt, Vermogen—Verwaltung ges. kg., Dusseldorf.	Holding company	do	29.5	SB
Boston Leasing GmbH, Frankfurt	Insurance activity	do	100	SE
*Inter-Factor Bank A.G., Mainz-Mombach	Factoring	do	10	SE
*Marine Midland Overseas, GmbH	Holding company	Marine Midland	100	SE
C. G. Trinkaus & Burkhardt, Essen	Bank	do	5	SSE
*Deutsch Iberoamerikanische Entwicklungs Aktiengesellschaft, Frankfurt.	Trade promotion and development.	Philadelphia National Bank.	8.3	SE
*John Berenberg, Gossler & Co., Hamburg	Merchant banking	do	10	E
Familienbank, A.G., Dusseldorf	Commercial bank	Chase Manhattan	100	B
*State Street Bank G.m.b.H., Munich	do	State Street Bqnk & Trust Co., Boston	100	E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Ghana:				
*National Investment Bank, Accra	Development bank	Morgan Guaranty Trust Co.	19	E
Greece:				
*Investment Bank, Ltd., Athens	Commercial bank	Bank of America N.T. & S.A., San Francisco.	20	E
*Titan Cement Co., S.A., Athens	Cement manufacturer.	Fidelity Bank	.002	E
		First National Bank of Chicago.	.05	E
*Polyetma Ltd., Athens	Polyester filament yarn manufacturer.	Fidelity Bank	(P)4	S_E
*National Investment Bank for Industrial Development S.A., Athens.	Development bank	Manufacturers Hanover Trust Co.	2.8	E
*Do	do	Chase Manhattan Bank NA.	7	E
**Commercial Credit Bank, Athens	Commercial bank	Manufacturers Hanover Trust, New York.	18.7	E
Guam:				
*Guam Oil & Refining Co., Agana	Oil refining	Bankers Trust	62.1	E
Citicorp Credit, Tamuning	Credit agency	First National City Bank.	90	E
Guatemala:				
*Servicios Comerciales e Industriales, S.A., Guatemala City.	Finance company	First National Bank of Boston.	50	E
Comercial Asegurado Suizo, Guatemala City.	Insurance	Pan American Bank of Miami.	80	S_{BHC}
Comercial Afranzadora S.A., Guatemala City	do	do	100	S_{SBHC}
Haiti:				
Banque de L'Union Haitienne S.A., Port au Prince.	Commercial bank	Manufacturers Hanover.	3.3	E
Honduras:				
*Cerveceria Hondurera S.A., San Pedro, Sula.	Brewery	Chase Manhattan Bank	4.2	
			*3.74	S_{SE}
			*.43	S_E
*Compania Azucarera Chumbagua S.A., San Pedro Sula.	Sugar mill	do	1.4	$S_{BHC\ E}$
*Compania Azucarera Choluteca S.A., Choluteca-Honduras.	do	do	1.7	$S_{BHC\ E}$
*CIA Azucarera Hondurera A.S., San Pedro Sula.	do	do	2	S_E
*Fomento E Inversiones S.A., de C.V.-Teguci-Galpa.	Investment company.	do	10	$S_{BHC\ E}$
*Molino Harinero Sula S.A., San Pedro Sula.	Flour mill	do	3.75	S_E
Compania de Bienes Atlantida, S.A., Tequclqalpa.	Real estate	do	99.7	BHC_E
*Compania de Almancines S.A., Tegucigalpa.	General warehousing	do	79.95	BHC_E
*Inversiones Atlantida, Tegucigalpa	Holding company	do	53.4	E
*Empresa de Curtidas Centro Americana S.A., San Pedro, Sula.	Leather tannery	First Pennsylvania Bank.	3	E
*Almecenes Generales de Deposito S.A. (CALDESA), San Pedro Sula.	Warehousing company.	Bank of America N.T. & S.A., San Francisco, Calif.	20	E
**Banco Atlantida, S.A., Tegucigalpa	Commercial bank	Chase Manhattan Bank	95.6	BHC_B
*Compania de Credito S.A., San Pedro Sula	Finance company	First National Bank of Boston.	50	E
**Banco de Honduras S.A., Tegucigalpa	Commercial bank	First National City Bank, New York.	96.6	B
Hong Kong:				
*FNCB Financial Ltd., Hong Kong	Finance company	First National City Bank.	100	E
* Far East Bank Ltd., Hong Kong	Commercial bank	do	76	B
*International Data Systems Services Ltd., Hong Kong.	Computer services company.	do	100	S_{BHC}
Asia Pacific Capital Corp., Hong Kong	Merchant bank	do	70	B
Duddell Finance Ltd., Hong Kong	Credit agency	do	50	S_B
			50	S_B
F.N.C.B. Nominees Ltd., Hong Kong	Holding company	do	50	S_B
			50	S_B
Bank of Canton, Hong Kong	Commercial bank	do	0	S_B
**Chase Manhattan (Hong Kong) Nominees, Ltd.	Nominee acting as agent for Chase Manhattan.	Chase Manhattan Bank	100	E
Kam Yuan Choy Mo Ltd., Hong Kong	Merchant banking	do	100	E
Diamond Lease (Hong Kong) Ltd., Hong Kong.	Leasing company	do	32	S_E
Orion Pacific Ltd., Hong Kong	Merchant bank		20	B

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Hong Kong—Continued				
Bangkok Financial Corp. (Hong Kong) Ltd., Hong Kong.	Credit agency	Bank of Hawaii	100	BHC
Continental Illinois (Hong Kong) Ltd	do	Continental Illinois	100	S_{BHC}
Western International Capital, Ltd., Hong Kong.	do	First National Bank of Oregon.	30	E
Do	do	Pacific National Bank of Washington.	20	E
Wing Hang Bank Ltd., Hong Kong	Commercial bank	Irving Trust Co	51	B
Associated Bankers Insurance Co. Ltd	Insurance company	do	4	S_B
Chi Hang Investment Co. Ltd., Hong Kong	Real estate agent	do	10.9	S_B
Hing Wan Investment Co. Ltd	do	do	2.4	S_B
Merry Court Enterprises Ltd	do	do	7.5	S_B
Wing Hang (Nominee) Ltd	Holding company	do	100	S_B
Marmid Finance Ltd., Hong Kong	Credit agency	Marine Midland	100	S_E
Heller Factoring (Hong Kong) Ltd., Hong Kong.	Business credit	American National Bank & Trust.	40	S_{BHC}
BA Finance (Hong Kong) Common, Ltd., Hong Kong.	Finance	Bank of America	100	E
BA Leasing & Capital (Hong Kong), Ltd., Hong Kong.	Leasing company	do	75	E
Asia & Euro-American Capital Corp., Ltd., Hong Kong.	Merchant bank	do	30	E
Nortrust International Finance (Hong Kong), Ltd., Hong Kong.	Representative office.	Northern Trust Co., Chicago.	100	E
NBD Financial, Ltd., Hong Kong	Finance	National Bank of Detroit.	56.2	E
First Chicago Hong Kong, Ltd., Hong Kong	Finance and merchant banking.	First National Bank of Chicago.	100	E
Southern Pacific Properties, Ltd., Hong Kong.	Real estate	Bankers Trust Co		SSS_E
B.T. Finance Co., Ltd., Hong Kong	Credit agency	do	83.3	E
Bantrus (Hong Kong), Ltd., Hong Kong	Miscellaneous banking.	Bankers Trust	100	E
*Hong Kong & Shanghai Insurance Co., Ltd.	Insurance company	Security Pacific National Bank.	49.5	S_E
*Bank of Canton, Ltd., Hong Kong	Commercial bank	Security Pacific National Bank, Los Angeles, Calif.	69	E
Bank of Canton (Nominees) Ltd., Hong Kong.	Bank	do	100	S_{SE}
Canbank Finance Ltd., Hong Kong	Credit agency	do	100	S_{SE}
Western International Capital Ltd., Hong Kong.		United California Bank		E
*Shanghai Commercial Bank Ltd., Hong Kong.	Commercial bank	Wells Fargo Bank NA, San Francisco, Calif.	40	S_E
WMS Capital Corp., Ltd., Hong Kong	Merchant bank	Wells Fargo	40	S_{SE}
Italy:				
*Cordelal Italiana S.p.A., Milan	Construction	Bank of America	10	S_{SE}
*Patty S.p.A., Irosinone	Manufacturing (luggage).	do	1.4	S_{SE}
*Rivalta Scrivia, S.p.A., Genoa	Transport	do	.3	S_E
**Banca d'America ed Italia, Milan	Commercial bank	do	90.8	E
*Banca per Finanziamenti a nedio Termine S.p.A., Milan.	do	do	14.5	S_E
*Medeocredito Regionale Lombardo, Milan	do	do	.08	S_E
*Istitulo Centrale di Banche e Banchieri S.p.A., Milan.	do	do	2	S_E
*Societa Finanziaria Centro Italia, "Centrafinanziaria," Perugia.	Finance	do	15	S_E
Finanziaria Regionale Friuli-Venezia Giulia S.P.A., Trieste.	do	do	.1	S_E
Manifatture Italiana Lane Affini S.p.A., Rome.	Nonbanking	do	1.3	S_E
De Laurentiis Inter. Ma. Co. and Biada International, Rome.	do	do	5	SS_E
Consorzio Sovvenzioni su Valori Industriali, Rome.	do	do	1.3	S_E
F.I.N. Lombardia Finanziaria Per lo Svillupo Della Lombardia, Milan.	Credit agency	do	2	S_E
*Instituto Centrale di Banche e Banchieri, Rome.	Financing to banks	Morgan Guaranty Trust.	T	S_E
*Banca Morgan, Vonwiller, Milan	Commercial bank	do	51	E
*Finanziaria Prealpina, Milan	Finance company	do	100	S_{SE}
*Immobiliare Orefici S.p.A., Milan	Real estate	do	98.3	S_E
Efibanco-Ente	Financing to banks	do	.2	S_E
*Financiario Interbancario S.p.A., Rome				

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Italy—Continued				
*Bankers Trust Finanziaria, S.p.A., Rome	Investment bank	Bankers Trust Co., N.Y.	*95 *5	E SE
Bankers Trust Italia S.p.A., Rome	Miscellaneous banking.	do	5 95	SE E
Instituto Per L'Edilizia Economica e Popolare, Milan.	Construction	Morgan Guaranty Trust.	3.2	S_{SE}
Medio credito Regionale Lombardo, Milan	Credit agency	do	.04	S_{SE}
Trumobiliere la Prospera S.R.L., Milan	Real estate	do	100	S_{SSSE}
Heller Factoring S.p.A., Ital Factor, Milan	Business credit	American National Bank & Trust.	50	S_{SBHC}
Kiga S.p.A., Milan	Manufacturing	do	100	S_{SSBHC}
Walter E. Heller Israel Ltd., Tel Aviv	Credit agency	do	45	S_{BHC}
*International Factors Italia, S.p.A., Milan	Factoring	First National Bank of Boston.	*8	S_{E}
Immobiliare, MAJA, S.R.I., Rome	Real estate owners	First National Bank of Chicago.	100	B
Citicorp Finaniaria S.p.A., Milan	Credit agency	First National City Bank.	100	E
Societe Nazionale de Participazioni Finanziarie, Milan.	Holding company	do	28.8	E
Representanza Marine Midland Bank—New York S.p.A., Rome.	Credit agency	Marine Midland Bank	100	E
*Sitalfin S.p.A., Milan	Finance company	Marine Midland Bank, N.Y.	24.9	S_{E}
India:				
*Zuari Agro Chemicals Ltd., Goa	Fertilizer plant	Bank of America	4.4	E
*Fort Gloster Industries, Ltd., Calcutta	Cable manufacture	Continental Illinois	1.1	E
*Lakshmi Machine Works Ltd., Madras	Textile machinery company.	do	.8	E
*Mahindra Ugire Steel Co., Ltd., Khopoli	Steel company	do	.6	E
*Zuari Agro Chemicals Ltd., Bombay	Fertilizer manufacturing.	First National Bank of Chicago.	1.5	E
*Industrial Credit Investment Corp. of India, Ltd. (ICICI), Bombay.	Development bank	Bank of America	2.5	E
*Do	do	First National Bank of Boston.	.6	E
Picker X-Ray (India) Ltd., Calcutta	Manufacturing	National Bank of North America.	50	S_{SBHC}
*Industrial Credit Investment Corp. of India, Ltd. (ICICI), Bombay.	Development bank	Fidelity Bank, Rosemont, Pa.	.3	E
*Do	do	Bankers Trust	.4	E
*Do	do	Northwestern of Minneapolis.	1	E
*Do	do	Union Bank	.1	E
Indonesia:				
First Indonesia Finance & Investment Corp., Jakarta.	Investment	Seattle-First National	3	E
PT Semen Chibinong, Djakarta	Cement industry	Chemical Bank	1.1	E
*P. T. Semon Chibinong, Djakarta	do	Bank of America	5	E
PT Mutual International Finance Corp., Djakarta.		Crocker National Bank.	17	E
PT Finconesia Jakarta, Djakarta	Finance	Manufacturers Hanover.	17	E
P.T. Merchant Investment Corporation, Jakarta.	Investment bank	Morgan Guaranty	36	E
P.T. Interpacific Financial Corporation, Jakarta.	Financial institution	Continental Illinois	45	E
Indonesian Investments International (Indovest), Jakarta.	Merchant bank	First National Bank of Chicago.	35	S_{E}
P.T. First Indonesian Finance and Investment Corp., Djkarta.	do	First City National Bank of Houston.	10	E
P.T. First Indonesian Finance and Investment Corp. (FICORINVEST), Jakarta.	do	National City Bank of Cleveland.	2.5	E
Iran:				
*Iran-California Co. Inc., Teheran	Agriculture farm	Bank of America	19	E
*Sherkate Sahami Navard Luleh Ahwaz, Iran.	Rolling and pipe mills company.	do	2.1	S_{E}
**Foreign Trade Bank of Iran, Teheran	Commercial bank	Bank of America N.T. & S.A., San Francisco, Calif.	16.3	E
*Industrial and Mining Development Bank or Iran, Teheran.	Development bank	Continental Illinois National Bank & Trust Co., Chicago.	.5	E
Bank Dariush, Tehran	Commercial bank	do	23	E
*Industrial and Mining Development Bank of Iran, Teheran.	Development bank	Chase Manhattan Bank NA.	.5 2.1	E S_{E}
International Agrobusiness Corporation of Iran.	Commercial farming	Chase Manhattan	15	E
*Iranians' Bank, Teheran	Commercial bank	First National City Bank.	35	B

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Ireland:				
*Avoca Mines Ltd., Co., Wicklaw	Copper mines	do	(P)100	S_{E}
*Nuclear Data (Ireland) Co., Cork	Electronic equipment manufacturer.	do	(P)100	S_{E}
*Data Products (Dublin) Memories Ltd., Dublin.	Computer components.	do	(P)100	S_{E}
Jacobson (Ireland) Ltd., Co., Cork	Nuts, screws etc. manufacturer.	do	Pref.	S_{E}
Milhem Mineral Ltd., Co., Galway		do	Pref.	S_{E}
Wexcford Creamery Ltd., Wexford		do	(P)100	S_{E}
*Chase Ireland (Nominees) Ltd., Dublin	Holds customers securities.	do	100	S_{SE}
First Chicago Nominees (Ireland) Ltd., DubCn.	Nominee	First National Bank of Chicago.	100	E
*Chaslei and Bank of Ireland (International) Ltd., Dublin.	Commercial banking	Chase Manhattan Bank.	50	E
Trinity Bank Ltd., Dublin	Merchant bank	Philadelphia National Bank.	20	E
Wellman International Ltd., Mullagh	Textile manufacturer.	do	13.2	E
First National City Bank Trustees (Ireland) Ltd., Dublin.	Holding company	First National City Bank.	50 50	S_{B} S_{B}
First National City Financial Trust (Ireland) Ltd., Dublin.	do	do	50 50	S_{B} S_{B}
First National City Nominees (Ireland) Ltd., Dublin.	do	do	50 50	S_{B} S_{B}
First National City Securities (Ireland) Ltd.,Dulbin.	do	do	50 50	S_{B} S_{B}
First National City Trust (Ireland) Ltd., Dublin.	do	do	50 50	S_{B} S_{B}
Irish Intercontinental Bank Ltd	Merchant bank	Marine Midland	32	S_{SE}
Israel:				
*International Factors (Israel) Ltd., Tel Aviv.	Factoring	First National Bank of Boston.	10	S_{E}
*Bank Leumi Investment Co., Ltd., Tel Aviv	Investment holding company.	Fidelity Bank, Rosemont, Pa.	.3	E
Nominees Co. of Israel Insurance Bank Ltd., Tel Aviv.	Bank	First Pennsylvania National Bank.	100	S_{SSBHC}
Trust Company of Israel Industrial Bank Ltd., Tel Aviv.	do	do	100	S_{SBHC}
Miscellaneous Stock Investments, Tel Aviv	NA	do	NA	S_{SBHC}
Mortgage and Savings Bank Ltd., Tel Aviv	Mortgage bank	do	50	S_{SBHC}
On Insurance Agency Ltd., Tel Aviv	Insurance activity	do	100	S_{SBHC}
Finance Company of Israel Industrial Bank Ltd., Tel Aviv.	Bank	do	100	S_{SSBHC}
Company for Israel Ltd., Tel Aviv	do	do	NA	S_{SSSBHC}
Industrial Development Bank Ltd., Tel Aviv.	Development bank	do	NA	S_{SSSBHC}
Industrial Compensation Fund with Israel Industirial Bank, Tel Aviv.	Bank	do	100	S_{SSBHC}
Israel Industries Insurance Agency, Tel Aviv.	Insurance activity	do	100	S_{SSBHC}
Keren Hashefah Central Provident Fund with Israel Industrial Bank Ltd.	NA	do		S_{SSBHC}
First International Bank of Israel Nominees, Ltd., Tel Aviv.	Miscellaneous banking.	do	100	S_{SSBHC}
First International Bank of Israel Trust Co., Ltd., Tel Aviv.	do	do	100	S_{SSBHC}
Fortrab Investment Co., Ltd., Tel Aviv	do	do	100	S_{SSBHC}
General Trust Co., Ltd., Tel Aviv	NA	do	100	S_{SSBHC}
Miscellaneous Stock Investments, Tel Aviv	NA	do	NA	S_{SSBHC}
Motobond, Ltd., Tel Aviv	NA	do	100	S_{SSBHC}
Israel Industrial Bank, Tel Aviv	Bank	do	100	S_{SBHC}
FIBI Holding Co. Ltd., Tel Aviv	Holding company	do	38.7	S_{BHC}
First International Bank of Israel Ltd., Tel Aviv.	Bank	do	100	S_{SBHC}
"Merav" Mortgage & Savings Bank Ltd., Tel Aviv.	Mortgage bank	do	50	S_{SSBHC}
(A Real Estate Company) Tel Aviv	Real estate	do	100	S_{SSBHC}
AFRIFOR Ltd., Tel Aviv	NA	do	100	S_{SSBHC}
Dikla Services Ltd., Tel Aviv	NA	do	100	S_{SSBHC}
Export Bank Compensation Fund Ltd., Tel Aviv.	NA	do	100	S_{SSBHC}
Export Bank Nominees Ltd., Tel Aviv	Miscellaneous banking.	do	100	S_{SSBHC}

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Ivory Coast:				
*Banque Ivoirienne de Developpement Industriei, Abidian.	Development bank	Chase Manhattan Bank	8.9	E
**Societe Ivoirienne de Banque, Abidian	Commerical bank	Morgan Guaranty	12	E
**Societe Generale de Banques en Côte d'Ivoire Abidian.	do	Bankers Trust	13	E
Jamaica:				
*Life of Jamaica, Kingston	Insurance Company	Citizens & Southern	.7	SE
			*1	E
*Pegasus Hotels of Jamaica, Ltd., Kingston	Hotel	do	.7	E
*Jamaica Citizens Bank, Ltd., Kingston	Commercial bank	do	*18	B
			*38.5	E
			*3.6	E
*First National Bank of Chicago (Jamaica) Ltd., Kingston.	do	First National Bank, Chicago, Ill.	100	B
*First Chicago Merchant Bank (Jamaica) Ltd., Kingston.	Merchant bank	do	100	SB
Mortgage Guaranty Insurance Corp. of Jamaica Ltd., Kingston.	Insurance	do	.7	SSB
*First National Finance, Ltd., Jamaica, Kingston.	Finance company	First National City Bank, New York.	75	E
Caribbean Merchant Bank, Ltd., Kingston	Merchant bank	do	100	B
Walter E. Heller & Co. of Jamaica, Ltd., Kingston.	Credit agency	American National Bank & Trust Co.	100	SBHC
Chase Merchant Bankers Jamaica, Ltd., Kingston.	Merchant bank	Chase Manhattan Bank	100	E
Jamaican American Merchant Bankers, Ltd., Kingston	do	Bank of America	100	E
Japan:				
*General Lease Co., Ltd., Osaka	Leasing company	do	*3	E
			*7	SSE
			7	SSE
			*7	SE
			3	E
*Private Investment Co. for Asia (P.I.C.A.) S.A., Tokyo.	Investment and development.	do	.8	E
*Do	do	Girard Trust Bank, Bala-Cymuyd.	.5	E
*Do	do	Security Pacific National Bank.	.9	E
*Do	do	Bank of California, San Francisco.	1.2	E
*Do	do	Wells Fargo	.8	E
*Do	do	First National City Bank.	.8	E
*Do	do	Northern Trust Co., Chicago.	.5	E
*Do	do	Chase Manhattan Bank.	.8	E
*Do	do	Chemical Bank, New York.	.8	E
*Do	do	First Pennsylvania Banking & Trust, Philadelphia.	<1	E
*Private Investment Co., for Asia (P.I.C.A.) S.A., Panama City.	do	First National Bank, Dallas, Tex.	.8	E
*Private Investment Co., for Asia (P.I.C.A.) S.A., Tokyo.	do	Seattle-First National Bank Seattle, Wash.	.8	E
*Do	do	Manufacturers Hanover, New York.	.8	E
*Private Investment Co., for Asia (P.I.C.A.) S.A., Singapore.	do	First National Bank of Chicago.	.8	E
Private Investment Co. for Asia S.A., Tokyo.	Investment company.	Bank of Hawaii	.1	SBHC
Kita Nippon Shinyo Hanbai Co. Ltd., Kakkaido.	Finance	Chase Manhattan	1	E
			2.1	SE
Mitsubishi Chase Manhattan Consulting Co., Tokyo.	Miscellaneous banking.	do	40	SBHC
*Diamond Lease Co., Ltd	Leasing company	do	14.8	BHC
			10	E
*Pacific Lease Co., Ltd., Tokyo	do	First National Bank of Boston.	10	E
Orient Factors Ltd., Tokyo	Factoring company	do	10	E
*Fuji National City Consulting, Ltd., Tokyo	Management consulting firm.	First National City Bank.	50	SBHC
*Fuyo General Lease Co., Ltd., Tokyo	Leasing company	do	33.3	SBHC
First National Nippon Shinpan Co. Ltd., Tokyo.	Credit agency	do	40	BHC
Central Greyhound Leasing and Finance Corp., Tokyo.	Leasing company	Continental Illinois	10	E
Sun Lease Co. Ltd., Tokyo	do	Union Bank, Los Angeles.	10	E
*Tokyo Lease Co., Ltd., Tokyo	do	Manufacturer Hanover	10	E

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Jordan:				
*Industrial Development Bank, Amman	Development bank	Irving Trust	2.2	E
Central Lease Co., Ltd	Business credit	Marine Midland	9.9	S_E
Korea:				
*Mah-in Industries Inc., Pusan	Tiles and bathroom accessories.	Chase Manhattan Bank	84.3	E
*Korea Development Finance, Corp., Seoul.	Industrial development finance company.	United California Bank, Los Angeles, Calif.	2.5	E
*Do	do	Bank of America	3.5	E
*Do	do	First National City Bank, New York.	3.5	E
*Do	do	Irving Trust	2.3	E
Korea Investing Funding Corp., Seoul	Investment company	do	5	E
Kenya:				
*African Ponderosa Ltd., Mombassa	Lodges	Chase Manhattan	38.5	E
Lebanon:				
*Continental Development Bank S.A.L., Beirut.	Commercial bank	Continental Illinois	90	E
*Lebanon Fruit Juice Co	Nonbanking	do	1.41	S_E
*Lebanese Marble Co	do	do	6.4	S_E
Finance Company of Investment, Beirut	Holding company	do	.5	S_E
National Co. of Guaranty Deposits	Insurance	do	.7	S_E
*Al Mashrek Bank, Beirut	Commercial bank	do	.09	S_E
*Banque du Credit Populaire S.A.L., Beirut	do	United California Bank, Los Angeles, Calif.	41.3	E
*First National Bank of Chicago (Lebanon) S.A.L., Beirut.	do	First National Bank, Chicago Ill.	100	B
Banque Nationale pour le Developpement Industriel et Touristique Sal, Beirut.	Credit agency	do	.8	S_B
National Deposit Insurance Co. S.A.L., Beirut.	Insurance	do	.7	S_B
Bank Almashrek S.A.L., Beirut	Commercial bank	Morgan Guaranty	40	S_E
National Bank for Industrial and Touristic Development, Beirut.	Development bank	Chase Manhattan	1	E
Rabiya Bank S.A.L., Rabiya	Commercial bank	Chemical Bank	40	B
Rabiya Co. S.A.L., Rabiya	Holding company	do	.2	B
Liberia:				
International Ship Finance (Liberia) Inc	Business credit	Marine Midland	100	S_{SE}
CAM Shipping Inc., Monrovia	do	do	100	S_{SE}
*Liberia Hotels, Inc., Monrovia	Hotel	Chase Manhattan Bank	18.9	S_E
**Bank of Liberia, Monrovia	Commercial bank	Chemical Bank	47.6	E
*Liberia Realty Corp., Monrovia	Real estate	do	100	S_E
*Liberian Insurance Agency, Monrovia	Insurance broker	do	65	S_E
Libmar One, Inc., Monrovia	Business credit	do	100	E
Libmar Two, Inc., Monrovia	do	do	100	E
Contintal Aerolease No. 1, Inc., Monrovia	Credit agency	Continental, Illinois	100	S_{BHC}
Continental Aerolease No. 2, Inc., Monrovia	do	do	100	S_{BHC}
Continental Aerolease No. 3, Inc., Monrovia	do	do	100	S_{BHC}
Continental Aerolease No. 4, Inc., Monrovia	do	do	100	S_{BHC}
*Mid America International Development Association, Inc., Monrovia.	Financial development.	First National Bank of Chicago.	100	E
*Citicorp Maritime-Lease (SKO) Inc., Monrovia.	Special purpose general equipment leasing.	First National City Bank, New York.	100	S_{BHC}
**Bank of Monrovia, Monrovia	Commercial bank	First National City Bank.	100	B
*Liberian Bank for Industrial Development & Investment, Monrovia.	Banking	do	12	S_B
Liberian Enterprises	Investment company.	do	.5	S_B
Indoline Carriers Inc., Monrovia	Business credit institution.	do	100	S_{BHC}
Iwerne Shipping Inc	Business credit	Marine Midland Bank	100	S_{SE}
Miranda Shipping Inc	do	do	100	S_{SE}
Liechtenstein:				
Establissement Partifind, Vaduz	Holding company	First National City Bank.	100	S_E
Gavag A.G., Vaduz	do	American National Bank & Trust.	100	S_{SSSBHC}
Knoll International A.G.—Vaduz, Vaduz	do	do	100	S_{SSBHC}
Libya:				
*Bank of North Africa, Tripoli	Commercial bank	Morgan Guaranty	10	E
Luxembourg:				
*Ameribas Holding, S.A., Luxembourg	Finance and holding company.	Bank of America N.T. & S.A.	50	E
*Banque Ameribas, Luxembourg	Merchant bank	do	11 29 20	BHC B *S_B

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Luxembourg—Continued				
Wobaco Holding Co., Luxembourg	Bank holding company.	Bank of America	47.5	E
*Bank of America—Luxembourg	Commercial bank	Bank of America N.T. & S.A.	100	B
World Banking Corp	Bank	do	100	S_E
*Societe Financiere Europeene, Holding, Luxembourg.	Finance holding company.	do	12.5	E
Societe Financiere, Luxembourg	Credit agency	do	100	S_E
*CADIT, Compagnie Pour l'Administration d'Investment Trusts.		do	.2	S_E
*FINABAI, Societe Financiere, S.A		do	100	S_E
Bank of Credit & Commerce International S.A., Luxembourg.	Commercial bank	do	2.5 5	E S_E
International Nuclear Credit Corp., Luxembourg.	Finance nuclear energy projects.	do	9.1	E
Basic Resources International S.A., Luxembourg.	Nonbanking	do	1.1	S_{SE}
Bank of Credit & Commerce International S.A., Luxembourg.	Commercial bank	do	20	B
*Oriflane International S.A., Luxembourg	Holding	Bankers Trust	9.2	E
*Centrae de Livraison de Valeurs Mobilieres (CEDEL), Luxembourg.	Eurobond clearing association.	Chase Manhattan Bank, NA.	.8	E
CEDEL S.A., Luxembourg	Miscellaneous banking.	National Bank of Detroit.	2.3	S_B
*Centrae de Livraison de Valeurs Mobilieres (CEDEL), Luxembourg.	Eurobond clearing association.	First National Bank of Boston.	1.6	E
*Do	do	Bank of America	.8	S_E
*Do	do	First National City Bank.	NA	S_B
*SIFIDA Investment Co., S.A., Luxembourg (Societe Int'l Financiere Pour les Invest. Et Le Development En Afrique)	Investment and development.	Chemical Bank	1.6 1.6	S_B E
*SIFIDA Investment Co., S.A., Luxembourg and Geneva.	do	Marine Midland Bank, New York.	2	S_E
*Do	do	Northern Trust Co., Chicago, Ill.	1	E
*Do	do	Bank of America	.8	E
*Do	Investment financing (Africa).	Franklin National	1	E
*Do	Investment and development.	Girard	1.1	E
*Societe International Financiere Pour le Investissements et de Development en Afrique, Luxembourg.	Promote industrial development.	Manufacturers Hanover.	2	E
Capital International Fund, Notre Dame	Miscellaneous banking.	Chase Manhattan	.43	SS_E
Capital Italia International Advisory Co., S.A., Luxembourg.	Investment company	do	100	S_E
Capital Italia, S.A., Notre Dame	Miscellaneous banking.	do	.5	SS_E
Capital International Advisory Co., S.A., Luxembourg.	Investment company	do	100	S_E
Chase Manhattan, Luxembourg, S.A	Commercial bank	do	100	E
Interselex Common Stock, Luxembourg	Miscellaneous banking.	Continental Illinois	18.75	S_E
Interselex Capital Funds, Luxembourg	do	do	.0	S_E
Interselex General Funds, Luxembourg	do	do	.01	S_E
European Enterprises Development Co. of Luxembourg.	Investment company	do	1.6	E
*Continental International Finance, S.A., Luxembourg.	Holding company	Continental Illinois National Bank & Trust Co., Chicago.	100	E
*European Enterprises Development Co., S.A., Luxembourg.	Investment company	Fidelity Bank, Rosemont, Pa.	1.6	E
*European Enterprises Development Co., S.A.	do	National Shawmut Bank.	1.6	E
*Bank of Boston S.A., Luxembourg	Merchant bank	First National Bank of Boston.	100	BHC
*Boston Overseas Holdings, S.A., Ltd	Holding company	do	100	E
*Compass Finance S.A., Luxembourg	Finance and holding company.	First National Bank of Miami, Fla.	50	BHC
*Do	do	Northwestern National Bank, Minneapolis, Minn.	50	BHC S_{BHC}
Compass Bank	Bank	First National Bank of Miami.	100	S_{BHC}

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Luxembourg—Continued				
*First National City Bank (Luxembourg) S.A.	Commercial bank	First National City Bank, New York.	100	B
*Omicenter, S.A., Luxembourg	Manufacturer machinery and equipment.	do	4.9	S_E
*Securities Management Co., Luxenbourg, SEMACO S.A.	Securities and commodities broker.	do	26.2	E
Citicorp International S.A., Luxembourg	Investment company	do	100	BHC
U.S. Trust Investment Funds	Miscellaneous banking.	Manufacturers Hanover Trust.	.01	S_B
*Centra,le de Livrism de Valeurs Mobilieres S.A., Luxembourg.	Securities clearing-house.	Manufacturers Hanover.	.8	S_E
*International Investment Corp. for Yugoslavia Luxembourg.	Investment company	Girard Trust	2.1	E
*Do	do	Philadelphia National Bank.	2	E
Concord International S.A., Luxembourg	International leasing	do	20	E
*Marine Midland Investment Fund, S.A., Luxembourg.	Miscellaneous banking.	Marine Midland	100	S_{SE}
*Marinvest S.A., Luxembourg	Investment management.	do	100	S_E
*European Enterprises Development C/S Co. S.A., Luxembourg.	do	Morgan Guaranty	*5.5 .5	E S_E
Western American Bank (Luxembourg) S.A., Luxembourg-ville.	Merchant bank	National Bank of Detroit.	100	S_B
Societe de Gestion de Euroblig, Luxembourg.	Miscellaneous banking.	U.S. Trust Co	15	S_{SE}
**U.S. Trust International Advisory Co. S.A., Luxembourg.		do	11.9	E
*Scienta Holdings S.A., Luxembourg	Development finance	New England Merchants.	3.3	E
*ADELA Investment Co., S.A., Luxembourg	Investment and development Co.	National Shawmut Bank, Boston, Mass.	.4	E
*Do	do	Manufacturers National Bank of Detroit.	.4	E
*Do	do	National Bank of Detroit.	.8	E
*Do	do	First Pennsylvania Banking & Trust Co.	<1	E
*Do	do	Fidelity Bank, Rosemont, Pa.	1.1	E
*Do	do	Chemical Bank, New York.	.8	E
Society for Worldwide Interbank Financial Communication, Luxembourg.	Telecommunications	Chase Manhattan Bank.	T	E
*ADELA Investment Co. S.A. Luxembourg	Investment and development.	Northwestern of Minneapolis Minn.	.2	E
*Do	do	Mellan Bank	.8	E
*Do	do	Irving Trust	.4	E
*Do	do	Crocker National	.8	E
*Do	do	First National City Bank.	1	E
*Do	do	Manufacturers Hanover.	.8	E
*Do	do	Continental Illinois	1	E
*Do	do	Bank of America	1.4 *.5	E S_E
*Do	do	Wells Fargo	11.9 .8	E S_E
Macao:				
Cambista Kuong Tong Ngun Hong SARL	Bank	Security Pacific National Bank.	100	S_D
Bank of Canton Ltd. Mocao	do	do	100	S_{SR}
Malaysia:				
*Malaysian Industrial Development Finance Ltd. Kuala Lampur.	Finance company	Bank of America	1	E
		Bankers Trust	.7	E
		Morgan Guaranty	.7	E
*Malaysian International Merchant Bankers Berhad, Kuala Lumpur.	Merchant bank	Continental Illinois	24.5	E
*Southeast Asia Development Corp. Ltd., Kuala Lampur.	Investment banking	Manufacturers Hanover Trust.	.9	E
*Malaysian Industrial Development Finance, Ltd., Kuala Lampur.	Promote industrial development	do	.7	E
**Malaysian Industrial Finance Corp. (MIFC), Kuala Lampur.	Finance company	Marine Midland	15	S_E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Malaysia—Continued				
Asian and Euro-American Merchant Bankers (Malaysia) Berhad, Kuala Lumpur.	Merchant Bank	Bank of America	22.5	
Citicorp Financial Ltd., Singapore	Credit agency	First National City Bank.	100	E
*Malayawata Steel, Ltd., Prai	Iron and steel production.	Philadelphia National Bank.	.3	E
Credit Guarantee Corp., Malaysia; Berhad, Kuala Lampur.	Guarantee company	Chase Manhattan	.2	E
Martinique:				
*Societe Antillaise de Product Chemique (SAPROCHM), Fort de France.	Fertilizer manufacturer.	do	(A)10.1 (B)79.9	E E
Mauritania:				
*Societe Miniere de Mauritanie S.A., Nouakchott.	Copper mining	Bank of America	.4	E
*Societe Miniere de Mauritania, Akjcujt	Copper refining	Philadelphia National Bank.	.4	E
Mexico:				
*Arrendadora Comermex S.A. de CV, Mexico. City.	Equipment leasing firm.	Bank of America	44	E
Industrias Polifil S.A., Mexico	Texturized polypropolene yarn.	do	10	E
**Corporacion Financiera S.A., Mexico City		do	20	E
Campos Hermanos S.A., Tlalnepantla		State Street Bank & Trust Co.	.9	E
Campos Hermanos, Tlalnepantla	Manufacturing	Bank of America	.8	S_{sE}
Campos Hermonos S.A.	Wholesale trade	Chemical Bank	.7	S_E
Campos Hermanos, Tlalnepantla	Manufacturing	First Pennsylvania National Bank.	1	S_E
Do	do	United California Bank	T	E
Do	do	Harris Bank	.01	E
Do	do	Philadelphia National Bank.	.01	S_E
Fabricantes Tecnicas, Mexico City	do	Central Bank & Trust, Denver.	100	BHC
Immobiliare Tecnica S.A., Mexico City	Real estate owner-operator.	do	100	BHC
Picker Rayos X-Mexicana S.A. de C.V., Mexico City.	Services	National Bank of North America.	100	S_{sBHC}
Tornillos Especiales of Mexico S.A., Naucalpan de Juarez.	Manufacturing	Jefferson Trust & Savings, Peoria, Ill.	100	BHC
Telefonos de Mexico S.A., Mexico City	Communication	do	1	S_{BHC}
Immobiliaria Elda S.A., Veracruz	Real estate owner	Nevada National Bank	100	BHC
Thomson Vera Cruz S.A., Veracruz	Manufacturing	do	100	BHC
Walter E. Heller de Mexico S.A., Mexico City.	Business credit	American National Bank & Trust	100	S_{BHC}
*Polisae S.A., Guadaliara	Bag manufacturer	Chase Manhattan Bank.	Options	E
*Hogares Regiomontanas S.A., de CV Monterrey.	Land development	do	25	S_E
*Productora de Articulas de Celulosas Keyes S.A. de C.V. Jiutepee.	Molded pulp products.	Chemical Bank	32.8	E
*Arrendadora Internacional, Mexico City	Leasing company	First National Bank of Boston.	40	E
*Arrendadora e Inversionista Latina S.A. de C.V., Mexico City.	Commercial trade and leasing company.	First National Bank of Chicago.	100	E
*Asesores de Finanzas SA de C.V., Mexico City.	Management consulting and holding.	First National City Bank, New York.	100	E
*Cresap, McCormick & Paget de Mexico, S.A.	Consulting	do	100	S_{BHC}
*Arrendadora Banamex Sade C.V., Mexico City.	Lease financing, conditional sales, agreement and bridge financing.	do	(A)40 (B)40	S_{BHC}
*Arrendadora Finac, S.A. de C.V., Mexico City.	Lease financing	do	97	S_{BHC}
*Financiera Banamex S.A., Mexico City	Investment bank and financial consulting firm.	Morgan Guaranty Trust.	5.2	E
*Fomento de Inversiones, S.A. Mexico	Investment company.	Northwestern of Minneapolis.	3.6	E
*Industria del Hierro S.A., Mexico D.F	Construction equipment.	Philadelphia National Bank.	.3	E
*Prodelmex, Mexico City	Finance company	Provident National National Bank.	67	E
*Corporacion Interamericana S.A., Mexico City.	Investment company.	Wells Fargo Bank	22	S_E
*Interamericana de Arrendamientas S.A., Mexico City.	Business credit	do	23.8	E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Morocco:				
*Bank of America (Maroc) Casablanca	Commercial Bank	Bank of America	100	B
Societe Civile Immobiliere Bankamerica, Casablanca.	Owner/operator real estate.	do	100	SB
*Banque Marocaine du Commerce Exterieur, Casablanca.	Commercial Bank	do	*2.8	E
		Manufacturers Hanover Trust Co.	*.8	E
*Banque Americano Franco-Suisse Pour le Maroc,Casablanca.	do	Continental Illinois, National Bank & Trust Co., Chicago.	22	E
*Societe Immobiliere Les Hesperides, S.A., Casablanca.	Real estate company	Continental Illinois	33	E
*First National City Bank (Maghreb), Casablanca.	Commercial bank	First National City Bank.	100	B
*Banque Nationale pour le Development Economique (BNDE), Rabat.	Development bank	Morgan Guaranty Trust Co.	2.3	E
Ranch Adaroch, Rabat	Nonbanking	Kleberg First National Bank, Kingsville, Tex.	100	BHC
Monaco:				
Europe No. 1, Monte Carlo	Communication	Morgan Guaranty	.5	S_E
Netherlands:				
N.B.M. Heller Factoring N.V., Utrecht	Business credit	American National Bank & Trust.	50	S_{BHC}
Amparis B.V., Amsterdam	Finance	Bank of America	50	E
Holland Sea Search, The Hague	Mining	Bankers Trust		SS_E
*Nederlandse Creditbank, N.V., Amsterdam.	Commercial bank	Chase Manhattan Bank N.A.	A31.6 B10.5	E
*Multinational Orion Leasing Holdings N.V., Amsterdam.	Leasing company	Chase Manhattan	16.6	S_E
International Factors Nederland N.V., Rotterdam.	Factoring company	First National Bank of Boston.	25	S_E
*N.V., Slavenberg's Bank, Rotterdam	Commercial bank	First National Bank, Chicago, Ill.	*1.1 *14.77 5.23	E B S_E
*Citicorp Leasing, Nederland, Amsterdam	General equipment leasing.	First National City Bank.	100	S_{BHC}
*Financia Nederland N.V., The Hague	Finance company	do	100	S_E
*Algemene Hollandse, Crediet in Deposito Bank, The Hague.	Bank	do	100	S_E
Picker Netherland N.V., Utrecht	Services	National Bank of North America.	100	S_{BHC}
Hambro International N.V., Amsterdam	Finance company	Wells Fargo Bank N.A., San Francisco.	6	E
Netherlands Antilles:				
*Allied International N.V., Curacao	Investment company	Allied Bank International, New York.	100	E
Heller Financial Corp. N.V., Willemstead	Business credit	American National Bank & Trust.	100	S_{BHC}
First Chicago Overseas Finance N.V., Curacao.	Miscellaneous banking.	First National Bank of Chicago.	100	BHC
Citicorp International N.V., Amsterdam	Holding company	First National City Bank.	100	BHC
*INARCO Investment Co., N.V., Curacao	do	First National City Bank, New York.	100	E
Peruinvest International N.V., Curacao		Franklin National	1.1	S_E
First Empire Bank International N.V., Curacao.	Wholesale bank	Manufactures & Trodero Trust Co., Buffalo.	100	BHC
Interunion Antilles N.Y., Curacao	Credit agency	Marine Midland	2.2	S_E
Standard Prudential N.V., Curacao	do	Sterling National Bank of New York.	100	BHC
New Caledonia:				
*Banque De Paris et de Pays Bas Nouvelle, Caledonia, Noumea, Noumea.	Commercial bank	Bank of America	30	B
New Hebrides Trust Administration:				
Pacific International Trust Co., Ltd	Corporate salaries	do	20	E
New Zealand:				
*Flagship Pacific Holding, Ltd	Wellington building company.	Chase Manhattan Bank.	24.5	E
*Unit Shipping (NZ), Ltd., Auckland	Shipping	do	(P)20 (C)4	E
*Broadbank Corp., Wellington	Merchant bank	Wells Fargo Bank NA., San Francisco.	12.5	S_E
New Zealand United Corp. Ltd., Wellington	do	Bank of America	20	E
Bremner Intermarine (NZ) Ltd	do	Marine Midland	20	S_E
First New Zealand International Ltd., Wellington.	do	Morgan Guaranty	5	S_E
Marac Holdings Ltd., Auckland	Holding company	Security Pacific National Bank.	20	S_E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Nicaragua:				
*Atlantic Coast Chemical Co., S.A., Waspan	Producer of pine resins pine oil, etc.	Bank of America	14.2	E
*Sacos Centroamericanos S.A., Diriamba	Producer of jute, kenaf bags, and cloth.	do	16.9	E
*Textiles Fabricato de Nicaragua, S.A., Managua.	Textile mill	do	5.2	E
*Corporacion Nicaraguense de Inversiones, Managua.	Investment corporation.	Bank of America N.T. & S.A., San Francisco.	9.5	E
*Textiles Fabricato de Nicaragua, S.A., Managua.	Textile production	Philadelphia National Bank.	3.4	E
*Banco Caley-Dagnall, S.A., Managua	Merchant bank	do	17.5	E
*Corporacion Nicaraguense de Inversiones, Managua	Investment corporation.	United California Bank, Los Angeles.	20.3	E
**Banco de America, Managua	Commercial bank	Wells Fargo Bank, NA	19.2	S_E
*Financiera Industrial y Agropecuaria, Managua.	Finance company	Wells Fargo	15	S_E
*Corporation de Inversiones Diverses S.A., Managua.	do	do	7.5	S_E
Nigeria:				
*Bank of America (Nigeria) Ltd., Lagos	Commercial bank	Bank of America N.T. & S.A., San Francisco.	100	B
Nigerian Industrial Development Bank Lagos.	Development bank	Bank of America	3.2	E
*United Bank for Africa, Ltd., Lagos	Commercial bank	Bankers Trust Co., New York.	4.7	E
*Cross River Mills Ltd., Lagos	Lumber	Chase Manhattan Bank.	3.3	S_E
*Calabar Veneer Plywood Ltd., Lagos	Lumber company	do	3.3	S_E
*Nigerian Textile Mills, Ikeja	Textile mill	do	26	E
*Nigerian Industrial Development Bank, Lagos.	Development bank	do	8.04	E
*Do	do	Chemical Bank, New York.	(P)2.5 (C).6	E
*Do	do	Northwestern of Minneapolis.	1.9	E
*Do	do	Irving Trust	3.9	E
Norway:				
Norsk Hydro, Oslo Norway	Nonbanking	Manufacturers Hanover Trust.	NA	S_B
Oman, Sultinate of:				
National Bank of Oman Matinh	Commercial bank	Bank of America	20	B
Pakistan:				
*Pakistan Industrial Credit & Investment Corp., Karachi.	Private development bank.	do	3.6	E
*Do	do	Continental Illinois National Bank & Trust Co.	2.5	E
*Do	do	Morgan Guaranty Trust Co., New York.	.83	E
*Do	do	Irving Trust	1.7	E
Panama:				
*Latin Mutual Investment Inc., R.D		Bank of America	16.7	S_{SE}
*San Faustin S.A		do	.7	S_{SE}
*Financiera Bamerical S.A., Panama		do	100	E
*Latin American Agribusiness Development Corp. (LAAD), Panama City	Finance company	Bank of America N.T. & S.A., San Francisco.	7	E
*Desarrollo Industrial S.A., Panama City	Development bank finance corp.	do	2.5	E
*Do	Development bank	Chase Manhattan Bank	5	E
Club de Golf, Playa Coronado, Panama City	Country club	do		S_{SE}
*Manufacturera Latino Americano S.A. Panama.	Holding company	do	25	S_E
*Compania Almacendora Interamericana, S.A., Colon.	Warehousing	do	43.3	S_E
Latin American Agrobusiness Development Corp.	Farming	do	7.7	S_E
*Aircraft Leasing Company, S.A., Panama City.	Leasing of aircraft	First National City Bank.	100	E
Union de Bancos S.A. (Unibank), Panama City.	Commercial bank	First National Bank of Louisville.	10.5	B
Latin American Agrobusiness Development Corp. S.A., Panama City.	Miscellaneous banking.	First National Bank of Miami.	13	E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Panama—Continued				
*Private Invest. Co. for Asia	Investment company.	First National Bank in Dallas.	.8	E
*Private Investment Company for Asia S.A., Panama City.	do	Continental Illinois	.8	E
*Do	do	National Shawmut Bank.		E
*Financiera Intercomercial, S.A., Panama City.	Finance company	First National City Bank, New York.	100	E
*Financiera Centroamericana de Desarrollo, S.A. (FICENTRO), Panama City.	do	Marine Midland Bank, New York.	22.4	SE
Avon Shipping, Inc., Panama City	Business credit	do	100	SSE
*Servicos de Anuario Telefonico Internacional S.A., Panama City.	Produces telephone directories.	do	12.7	SE
International Ship Finance (Panana), Inc	Business credit	do	12.7	SE
Deltec Panamerica S.A	Holding company, merchant bank.	Pittsburgh National Bank.	1.7	E
Union De Bancos, S.A., Panama		Mercantile Trust Co., St. Louis.	11.1	E
*Servicos De Anuario Telefonico Internacional, S.A., Panama City.		Northwestern National Bank, of Minneapolis.	12.7	E
Banco International de Panama S.A	Commercial bank	Philadelphia National Bank.	20	E
Primer Banco de Aberras, Panama	Savings bank	do	20	E
*Dibeag Finance Corp., Panama	Finance and brokerage.	do	8.3	SE
Security Pacific Bank (Panama) S.A., Panama.	Merchant bank	Security Pacific National Bank.	100	SE
Security Pacific Interamerican Bank S.A., Panama.	do	do	50	SE
*Forrento de Inversion S.A., Panama	Holding company	Wachovia	4	E
Empressa Financieros Continental S.A., Panama.	do	Wells Fargo	25	SE
Paraguay:				
El Chaco S.A. Financiera, Asuncion	Credit agency	First National City Bank.	100	E
*Banco de Asuncion, Asuncion	Bank	Franklin National Bank, New York.	.3	SE
Papau and New Guinea:				
*Bouganville Mining, Ltd., Panguna	Copper mining	Bank of America	*.6 *.24	*E SSE
Peru:				
**Peruinvest-Compagnia de Formento e Inversiones, S.A., Lima	Development finance company.	Chase Manhattan Bank.	7.4	E
**Do	do	Morgan Guaranty Trust Co., New York.	14.2	E
Peru-invest International N.V., Lima	Finance company	Chase Manhattan	15.3	E
*Compania de Fomento e Inversions, S.A., Lima.		Franklin National	.54	SE
*Compania de Cemento Pacasmayo S.A., Lima.	Cement manufacturers.	First Pennsylvania	2.3	E
*Inversiones Abancay S.A., Lima	Industrial development.	Manufacturers Hanover.	7.8	E
*Compania de Cemento Pacasmayo S.A., Lima.	Cement production	Philadelphia National Bank.	3.5	E
Peru-invest International N.V., Caracao	Investment company	Morgan Guaranty Trust Co.	29.3	E
Philippines:				
*Industrial Finance Corp., Makati, Rizal	Finance company	Bank of America	13.7	E
**Do	do	Marine Midland Bank	7.2	E
*Do	do	Fidelity Bank	1.9	E
*Industrial Finance Corp., Manila, Rizal	do	Irving Trust	7.2	E
**Northern Industrial Finance, Corp. (NIFC), Manita.	Finance corporation	Bank of America	20	E
*Northern Industrial Finance, Corp., Manita	do	Marine Midland Bank	4.2	E
*Private Development Corp. of the Philippines, Manita.	Development finance corporation.	Bank of America	1.8	E
*Do	do	Irving Trust	4.8	E
*Do	do	Wells Fargo Bank	1	E
*Do	do	Continental Illinois	1.8	E
*Do	do	First National Bank of Boston.	1	E
*Do	do	Chemical Bank of New York.	1.8	E
*Do	do	First National City Bank, New York.	1.4	E
*Do	do	Manufacturers Hanover Trust.	1.8	E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Philippines—Continued				
Private Development Corp. of the Philippines, Makati.	Industrial development.	Bankers Trust, New York, N.Y.	1	E
*Philippine Appliance Corp., Rizal	Assembly of appliances.	Chase Manhattan	6.1	S_E
*House of Investments Inc., Manila	Investment bank	Continental Illinois	10	E
*Do	do	Fidelity Bank	4.1	E
*FNCB Finance Inc., Manila	Finance company	First National City Bank, New York.	75	E
*Meralco Securities Corp., Manila	Holding company	Northwestern National Bank of Minneapolis.	.06	E
*First Nationwide Credit Corp., Manila	Consumer financing	Philadelphia National Bank.	2.3	E
**CCP Securities Corp., Manila	Investment bank	Wells Fargo Bank	10	S_E
**Do	do	First National City Bank, New York.	20	E
Filinvest Credit Corp., Manila	Finance company	Chase Manhattan	30	E
Philippine-American Investments Corp., Manila.	Merchant bank	do	25	E
Manila Electric Co	Utility company	Northwest National Bank of Minneapolis.	.06	E
Far East Bank & Trust Co., Manila	Commercial Banks	Chemical Banks	12.5	E
Asia European American Development Corp., Makcati, Rizal.		Crocker National	6	E
Manila Electric Co., Manila	Electric utility	Philadelphia National Bank.	.01	E
Meralco Securities Corp., Pasig	Holding company	do	.01	E
Rizal Commercial Banking Corp., Makati, Rizal.	Commercial bank	Continental Illinois	30	E
Citicorp Investment Corp., Makati, Rizal	Credit agency	First National City Bank.	100	E
Philippine Bank of Communications, Manila	Commercial bank	Irving Trust Co	30	B
Hellep Industrial Factoring Co. of the Philippines, Manila.	Business credit	American National Bank and Trust.	50	S_{BHC}
Portugal:				
*International Factors (Portugal) Sarl, Lisbon.	Factoring	First National Bank of Boston.	20	S_E
Walter E. Heller, Factoring Portuguese, Sarl, Lisbon.	Credit agency	American National Bank & Trust.	25 25	S_{BHC} S_{SBHC}
Puerto Rico:				
Housing Investment Corp., San Juan	Mortgages finance	Chase Manhattan Bank NA.		
Overseas Realty Corp. of Puerto Rico, San Juan.	Real estate developers.	Chase Manhattan	100	B
*Enterprise Hotel Development Corp., Santurce.	Hotel	do	2.9 *(P)7 *(C)8.1 *(C)4.8	E S_E S_E S_E
Metro Finance Co., of Fajardo Inc., San Juan.	Personal credit	American National Bank & Trust.	100	S_{SBHC}
Metro Finance Co., of Guayanilla Inc., San Juan.	do	do	100	S_{SBHC}
Metro Finance Co., of Lajas Inc., San Juan	do	do	100	S_{SBHC}
Metro Finance Co., of Puerto Nuevo Inc., San Juan.	do	do	100	S_{SBHC}
Metro Finance Co. Inc., San Juan	do	do	100	S_{SBHC}
Metro Finance Co. of Humocao Inc., San Juan.	do	do	100	S_{SSBHC}
Berens Mortgage Bankers Inc., San Juan	Mortgage bank	First Pennsylvania Bank, NA.	100	BHC
Commolo Co. Inc., Santurce	Credit agency	do	100	BHC
Pearl Finance Corp., San Juan	do	American National Bank & Trust.	100	S_{BHC}
ABC Finance Corp., of San Juan, San Juan	Personal credit	do	100	S_{SBHC}
Metro Finance Co. of Anasco Inc., San Juan	do	do	100	S_{SBHC}
Metro Finance Co. of Aquadilla, Inc., San Juan.	do	do	100	S_{SBHC}
Metro Finance Co. of Bayamon Inc., San Juan.	do	do	100	S_{SBHC}
Bamerical Mortgage & Finance Co. Inc., Hato Rey.	Finance and mortgage.	Bank of America N.T. & S.A.	100	E

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Puerto Rico—Continued				
National City Financial Services, Inc., San Juan.	Credit agency	First National City Bank.	100	E
Prestamos Presto Canovanao Inc., Loiza	do	do	100	E
Prestamos Presto Carolina Inc., Carolina	do	do	100	E
Prestamos Presto Dorado Inc., Dorado	do	do	100	E
Prestamos Presto Hato Rey, Inc	do	do	100	E
Prestamos Presto Lares Inc., De Lares	do	do	50	E
Prestamos Presto Noreste, Inc., Santurce	do	do	100	E
Mini Finance Co., Guaynabo	do	do	100	S_E
Prestamos Presto Ciales Inc	do	do	100	S_E
*Prestamos Presto de Puerto Rico, Carolina	Finance company	do	100	E
*Cosmopolitan Realty, Hato Rey	Bank premises	do	100	B
*Citicorp Leasing of Puerto Rico, Inc., San Juan.	Equipment leasing	do	100	S_{BHC}
Rwanda:				
*Banque De Kigali, Kigali	Commercial bank	Morgan Guaranty Trust Co., N.Y.	10	E
Senegal:				
**Societe General de Banques au Senegal, Dakar.	do	Bankers Trust Co., N.Y.	10	E
*Builders International S.A., Dakar	Construction	Fidelity Bank	4.2	E
*Union Senegalaise de Banque, Dakar	Commercial bank	Morgan Guaranty	3.8	E
Singapore:				
United Chase Merchant Banking Ltd., Singapore.	Merchant Bank	Chase Manhattan	42.5	E
*Development Bank of Singapore, Ltd., Singapore.	Development bank	Chase Manhattan Bank NA.	.5	E
International Discount Co. Ltd., Singapore	Finance company	Chase Manhattan	10	E
**Chase Manhattan (Singapore) Nominees Private Ltd. Attorney Nominees.	Agent and trustees for Chase Manhattan Bank NA.	do	100	S_E
*Asia & EuroAmerican Merchant Bank Ltd., Singapore.	Merchant bank	Bank of America	30	E
*Singapore International Merchant Bankers Ltd., Singapore.	do	Continental Illinois National Bank & Trust Co.	23.7	E
Morgan Guaranty & Partners, Ltd., Singapore.	do	Morgan Guaranty Trust.		E
National Discount Co., Ltd., Singapore	Discount house	do	35	E
First Chicago (Singapore) Nominees Pte., Ltd.	Nominee	First National Bank of Chicago.	100	E
Private Investment Co. for Asia S.A., Singapore.	Credit agency	do	.8	S_E
*First Overseas Credit Ltd., Raffles Quay	Finance company	First National City Bank, New York.	40	E
South Africa:				
*International Factors (South Africa), Ltd., Johannesburg.	Factoring and leasing.	First National Bank of Boston.	10	S_E
**First Nationa City Bank (South Africa), Ltd., Johannesburg.	Commercia bank	First Nationa City Bank, New York.	100	B
Anglo Continental Investment & Finance Co., Johannesburg.	Holding company	Bankers Trust		S_{SE}
*Citibank Nominees (pty), Ltd., Johannesburg.	Trustee, nominee, and agent.	First National City Bank.	100	S_B
*FNCB Services Corp. (South Africa), Ltd., Johannesburg.	Travel services	do	100	S_B
Die Beers Oro Kimberley	Mining	Manufacturers Hanover Trust.	NA	S_B
Pimed (pty), Ltd., Johannesburg	NA	National Bank of North America.	75	S_{SBHC}
Fordom Factoring, Ltd., Johannesburg	Business credit	American National Bank & Trust.	50	S_{BHC}
Spain:				
Heller Factoring Espanola S.A., Barcelona	do	do	50	S_{BHC}
**Banco Commercial para America, Madrid	Commercial bank	Bank of America N.T. & S.A.	50	E
**Banco Intercontinental Espanol, Madrid	do	do	27.5	E
			1.2	S_{SE}
Compania Espanola de Credito a la Exportacion S.A., Madrid.	Insurance activity	Bank of America	1	S_E
Interfinanciera S.A., Madrid	Finance company	do	10	E
Interpromotora S.A., Madrid	Real estate company	do	15	E
Promotora Club Financion Genova, Madrid	Services	do	.5	S_E
*Hispamarket, Madrid	Securities dealers	do	*50.	S_E
*Athos, S.A	Real estate	do	50.	S_{SE}
			50.	S_E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Spain—Continued				
*Fabrica Espanola Magetos, S.A. Madrid	Manufacturer of automotive electrical equipment.	Bankers Trust	3.4	E
Transleasing S.A., Madrid	Leasing company	Chase Manhattan	20	S_E
**Liga Financiera, S.A. Madrid	Investment company.	do	30.2	S_E
**Banco Atlantico, Madrid	Commercial Bank	Continental Illinois National Bank & Trust Co.	12.9	E
Interleasing S.A., Madrid	Leasing company	do	25	E
*Union Industrial Bancaria, Barcelona	Industrial development bank.	do	.9	E
**Banco Europeo de Negocios, Madrid	Development bank	First National Bank of Boston.	2.4	E
*International Factor Espanola S.A., Madrid	Credit agency	do	23.4	S_E
**Banco de Financiacion Industrial, S.A. (Induban), Madrid.	Industrial bank	do	5.16	B
*Banco del Noroeste, La Coruna	Industrial development bank.	Manufacturers National Bank, Detroit, Mich.	2.2	E
Citilease International S.A., Madrid	Business credit	First National City Bank.	50	S_{BHC}
*Banco de Desarrollo Economico Espanol (Bandesco).	Development bank	Morgan Guaranty Trust Co., New York.	4.5	E
*Cofiber, S.A., Madrid	Industrial and real estate financing.	First National Bank of Miami.	26.6	S_{BHC}
King Ranch Espana S.A., Madrid	Nonbanking	Kleberg First National Bank, Kingsville, Tex.	99	BHC
Surinam:				
Handels Industries En Krediet Bank N.V., Paramaribo.	Commercial bank	Bank of America	10	B
Sweden:				
*International Factors A.B., Stockholm	Factoring	First National Bank of Boston.	10	S_E
Factoring Service A.B., Stockholm	Business credit	American National Bank & Trust.	20	S_{BHC}
Switzerland:				
**Societe Financiere Pour les Pays d'Outre Mer (SFOM), Geneva.	Bank holding company.	Bank of America N.T. & S.A.	25.2 11.8	E S_E
Corner Banco S.A., Lugano	Bank	Bank of America	20.7	SS_E
*United Overseas Bank S.A., Geneva	do	do	.05 .01	E S_E
Privaco Trust Services S.A., Geneva	Miscellaneous banking.	do	50	SS_E
*Bankers Trust A.G., Zurich	Commercial bank	Bankers Trust Co., New York.	100	S_E
*Societe Immobiliero II Rue Pierre Fatio, Geneva.	Real estate holding company.	Chase Manhattan Bank	100	S_B
*Chase Manhattan Bank (Switzerland) Geneva.	Commercial bank	Chase Manhattan Bank NA, New York.	100	B
Capital International S.A., Geneva	Economic and financial analysis.	Chase Manhattan Bank	50	E
*Continental Illinois Bank (Switzerland), Zurich.	Commercial bank	Continental Illinois	100	E
**Business Associates S.A., Geneva	Business consultants	Fidelity Bank, Rosemont, Pa.	100	E
*Greyhound Financial & Leasing Corp., A.G., Zug.	Capital equipment and financing company.	Fidelity Bank	8.5	E
Boston Investment & Financing Services, Zurich.	Trust service company.	First National Bank of Boston.	100	E
*International Factors and Leasing A.G., Zurich.	Holding Company	do	10	
*Factors, A.G., Zurich	Factoring	do	10	S_E
**Compagnie Pour le Placement Et Le Financement S.A., Geneva.	Development bank	First National City Bank.	100	E
*FNCB Investment Services, S.A., Geneva	Investment advisory service.	do	100	E
*Perfina A.G., Zurich	Finance company	do	100	S_E
*Citicorp Data Services S.A., Geneva	Computer services	do	100	S_{BBC}
*GATX/Boothe Finance A.G., Zurich	Finance capital equipment.	Manufacturers Hanover.	10.5	E

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Switzerland—Continued				
*Morgan Guaranty Investment Services S.A., Geneva.	Investment advisory company.	Morgan Guaranty Trust Co., New York.	100	E
*Neue Bank A.G., Zurich	Commercial banking and securities business.	do	10	E
*Vonwiller S A., Chiasso	Financing	do	100	SSE
*Societe Holding de Financement cls et de Credit, S.A., Basle.	Holding company	do	.4	E
Banque Scandinave en Suisse, Geneva	Miscellaneous banking.	Northern Trust	25	B
*Security & Prosperity Fund Services S.A., Zurich.	Offshore mutual fund.	Northern Trust Co., Chicago, Ill.	4.2	E
American Swiss Credit Corp	Commercial financing.	Franklin National Bank.	100	E
*Seattle-First National Bank (Switzerland), Zurich.	Commercial bank	Seattle-First National Bank, Seattle, Wash.	100	B
*Financiere UST, S.A., Geneva	Purchase and sale agent.	U.S. Trust Co	100	E
Sifida Investment Co., Geneva	Investment company	Republic National Bank.	.5	SB
Knoll International A.G.—Basel, Basel	Holding company	American National Bank & Trust.	100	SSBHC
First Chicago S.A., Geneva	Merchant bank	First National Bank of Chicago.	100	E
Proventina Commercial A.G., Zurich	Investment company	Marine Midland	5.7	SE
Western American Eurodeal (Continental) A.G., Zug.	Security and commodity broker.	National Bank of Detroit.	100	SSB
Tahiti:				
Banque de Polynesie S.A., Papeete	Commercial bank	First National City Bank.	47.5	B
Banque de Tahiti, Papeete	do	Bank of Hawaii	20.5	SBHC
Entrepots et Transports Frigorifiques, Tahiti	Transport	do	4.4	SBHC
Tonga:				
Bank of Tonga of Poangos, Nuku Alofa	Bank	do	20	SBHC
Taiwan (Republic of China-Nationalist):				
*China Investment & Trust Co., Taipei	Merchant bank	Continental Illinois National Bank & Trust Co., Chicago, Ill.	20	E
*United Nylon Corp	Manufacture of nylon fibre.	Fidelity Bank	4.1	E
*Taiwan First Investment Trust Co., Ltd., Taipei.	Trust company	First National City Bank, N.Y.	50	E
Overseas Trust Corp., Taipei	do	National Bank of Detroit.	20	E
*China United Trust & Investment Corp., Taipei.	do	Irving Trust Co	20	E
**China Trade & Development Corp., Taipei	Trading company	do	12.9	E
**Do	Warehousing	Morgan Guaranty Trust Co., N.Y.	10.2	E
**Do	do	Bank of California	12.9	E
*China Development Corp., Taipei	Development bank	Wells Fargo Bank NA, San Francisco.	4.4	SE
Thailand:				
*Industrial Finance Corporation of Thailand, Bangkok.	Finance corporation	Bank of America N.T. & S.A., San Francisco, Calif.	3.7	E
*Do	do	Wells Fargo Bank	4	SE
*Do	do	Chase Manhattan Bank	1.4	E
Bangkok Stock Exchange, Ltd., Bangkok	Security and commodity broker.	do	2	SE
*Metal Box Co., Ltd., Bangkok	Cans producer	Bankers Trust	2.9	SE
*Serm Suk Co., Ltd., Bangkok	Pepsi-Cola bottling franchise.	do	3.8	SE
Dole Thailand Ltd., Bankgok	Nonbanking	do	4.4	SE
Thai Investment Securities Co., Ltd., Bangkok.	Credit agency	do	67.8	E
*Rama Tower Co. Ltd., Bangkok	Hotel	do	1.4	E
*Do	do	do	6.5	SE
Multi Credit Corp. of Thailand Ltd., Bangkok.	Commercial finance	Philadelphia National Bank.	24	E
*Siam Cement Co., Ltd., Bangkok	Cement company	Bankers Trust Co., New York.	.3	SE
*Do	do	Manufacturers Hanover.	.1	E
*Do	do	Philadelphia National Bank.	.4	E
*Do	do	Irving Trust	.3	E
Siam Cement Co., Bangkok	do	Bank of America	.7	E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Thailand—Continued				
*Chase Manhattan Investment Co. (Thailand), Ltd., Bangkok.	Finance company	Chase Manhattan Bank, N.A., New York.	100	E
*Bangkok First Investment & Trust, Ltd., Bangkok.	Investment banking	First National City Bank.	49	E
*First National City Development Finance Corp. (Thailand), Ltd.	Industrial development.	do	100	E
*Good Earth Financial, Ltd., Bangkok	Loan guarantor	do	25	S_E
*Bangkok Home Development Co., Ltd	Real estate and home finance.	do	10	S_E
*Bangkok Nomura International Securities Co., Ltd., Bangkok.	Investment banking	do	15	S_E
Wang Lee Bank, Ltd., Bangkok	Investment company	do	100	B
Bangkok First Tokai Co., Ltd., Bangkok	Credit agency	do	10	S_E
Bangkok First Tokai, Ltd., Bangkok	do	do	30	E
*Commercial Credit Corp. (Thailand), Bangkok.	Consumer finance company.	do	33.3	E
*Industrial Finance Corp. of Thailand, Bangkok.	Industrial	Manufacture Hanover	3.7	E
*Do	Business credit	First National City Bank.	.1	S_B
*Industrial Finance Corp., Bangkok	Finance company	United California Bank, Los Angeles.	1.8	E
Marine Midland (Thailand) Ltd., Bangkok	Credit agency	Marine Midland	100	S_E
Metro Housing & Construction Corp., Ltd., Bangkok.	Construction	Continental Illinois	20	S_E
*Continental Illinois Thailand Ltd., Bangkok.	Investment bank	Continental Illinois National Bank & Trust Co.	100	E
Tunisia:				
*Union Internationale de Banque, Tunis	Commercial bank	Bank of America N.T. & S.A.	4	E
*Banque de Tunisia, Tunis	do	Bankers Trust Co.,	2.2	E
*Union Bancaire Pour le Commerce et l'Industrie.	Commercial and investment bank.	Morgan Guaranty Trust Co., N.Y.	5.7	E
*NPK-Engrais S.A.T., Sfax	Fertilizer manufacture.	Philadelphia National Bank.	1	S_E
Turkey:				
**Turk Dis Ticaret Bankasi, Istanbul	Bankers	Bank of America	*20 *4	E S_E
Eregli Steel Corp., Amkara	Steel manufacture	Chase Manhattan	Warrants	
*Turkiye Sinai Kilkimma Bankasi A.S., Istanbul.	Development bank	Fidelity Bank, Rosemont, Pa.	.8	E
*International Bank for Commerce & Industry (Utebank).	Commercial bank	Marine Midland Bank, N.Y.	24	S_E
Trucial States:				
The Commercial Bank of Dubai Ltd., Dubai.	do	Chase Manhattan	38	E
Citicorp Gulf Finance Ltd., Dubai	Credit agency	First National City Bank.	100	E
Dubai Bank Ltd., Dubai	Commercial bank	Wells Fargo	10	S_E
*National Bank of Dubai, Dubai	Commercial banking	Bank of America N.T. & S.A., San Francisco, Calif.	3.7	E
United States of America:				
Bank of America, San Francisco	Bank	Bank of America	10	S_E
Derimus Corp. San Francisco		do		
*Bayorient Holding Corp., Boston		Bank of New York	12	E
The Venture Group Inc., Dallas	Oil exploration and insurance brokers.	Bank of Virginia, Richmond.	4.4	S_E
*BT International (Delaware) Inc., New York, N.Y.	Holding company	Bankers Trust	100	E
Chase Manhattan Overseas Finance Corp., New York.	Finance company	Chase Manhattan Bank	100	E
Chase Manhattan Consulting Inc., New York.	Miscellaneous banking.	do	100	BHC
*Northwest Iron Co., Ltd., Cleveland	Iron ore exploitation, Tasmania.	Chemical Bank	(D)10 12.9 (C)2.8	E
*C. & S. International Bank, Miami		Citizens & Southern	18.2	E
Continental Illinois (Delaware) Ltd., Chicago.	Holding company	Continental Illinois	100	BHC
Exchange National Bank Trust Co	Trust company	Exchange National Bank, Chicago.	99	E
*International Factors Corp., New York	Name holding corporation.	First National Bank of Boston.	100	E
Boston Factors International Inc., Boston	Factoring company	do	100	E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
United States of America—Continued				
First Chicago (Delaware), Inc., Chicago		First National Bank of Chicago.	100	E
Citilease, Inc., Delaware	Business credit institute.	First National City Bank.	100	BHC
*Bandtex International, Philadelphia	Export manager	Fidelity Bank	30	E
Bortex International, Philadelphia	do	do	21.2	E
*Citicorp Aerolease (CAL), Inc., New York	Business credit	First National City Bank.	100	SBHC
*Centaur Investment Corp., New York (Delaware).	Holding company	do	100	E
*Foremost Investment Corp., New York	do	do	100	E
*Yonder Investment Corp., New York	Investment company	do	99.9	E
*Broad Investment Corp., New York (Delaware).	Holding company	do	100	E
*Nessus Investment Corp., New York (Delaware).	Investment company	do	99.9	E
*Nostro Investment Corp., New York (Delaware).	Holding company	do	100	E
*Citicorp Aerolease (IB), Inc., Wilmington, Del.	Business credit	do	100	SBHC
*American Swiss Credit Co., Ltd., New York.		Franklin National Bank.	100	E
Buck & Doe Run Valley Farms Co., Coatesville, Pa.	Nonbanking	Kleberg First National Bank, Kingsville, Tex.	100	BHC
Kingsville Lumber Co., Kingsville, Tex	do	do	100	BHC
Kingsville Milling Co., Kingsville, Tex	do	do	100	BHC
Kingsville Publishing Co., Kingsville	do	do	100	BHC
Kingwood Properties, Houston, Tex	do	do	50	BHC
Kleberg First National Bank, Kingsville, Tex.	Bank	do	28.8	BHC
Ragland Merchantile Co., Kingsville, Tex	Nonbanking	do	100	BHC
Pan Ocean Oil Corp., New York	do	Manufacturers Hanover Trust.	NA	SB
Exchange National Bank Compensation Fund, Ltd.		do	99	E
Exchange National Bank Provident Fund, Ltd.		do	99	E
First Empire Financial Services, Ltd	Finance	Manufacturers & Traders Trust, Buffalo.	100	E
First Empire Development Co., Ltd		do	100	SE
*Marine Midland, Inc	Credit agency	Marine Midland	100	E
*Marine Midland Overseas Corp		do	100	E
J. P. Morgan Overseas Capital Corp., New York.	Foreign loans	Morgan Guaranty	100	E
*Bay Orient Holding Co., Boston	Management consulting for industrial development in Korea.	New England Merchants National Bank.	10.3	E
TTT Inc., Dover	Ship transport	Philadelphia National Bank.	7.4	E
Ciave-American Corp., New York	Trade finance	do	48	E
*Philadelphia International Leasing Corp., Philadelphia.	Leasing corporation	do	100	E
Republic Overseas Corp., Dallas	Investment	Republic National Bank of Dallas.	100	E
*Security Pacific Overseas Investment Corp., Los Angeles.	Funding of investments abroad.	Security Pacific National Bank.	100	E
*Back Bay Orient Enterprises Inc., Boston	Capital venture	United California	19.1	E
*UST Capital Corp., New York	Financing vehicle for offshore investment.	U.S. Trust Co	100	E
U.S. Trust Multinational Fund—Luxembourg; New York.	Miscellaneous banking.	do	.23	SSE
*U.S. Trust Investment Fund, New York	Investment fund for non-U.S. residents.	do	.01	SE
*Pepco (Delaware) New York	Medium and long term export financing.	American National Bank of Chicago.		E
*Do	do	Bank of America	6	E
*Do	do	Bank of California	.7	E
*Do	do	Central National Bank of Cleveland.	.006	E
*Do	do	Franklin National Bank	1.9	E
*Do	do	Girard Trust	1.2	E
*Do	do	Chemical Bank	6	E
*Do	do	First National City Bank	6	E

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
United States of America—Continued				
*Pepco (Delaware) New York	Medium and long term export financing.	Manufacturers Hanover	6	E
*Do	do	Harris Trust Savings Bank.	.01	E
*Do	do	Indiana National Bank	.6	E
*Do	do	Mercantile Trust Company N.A., St. Louis.	1.1	E
*Do	do	National Bank of Commerce of Seattle.	.7	E
*Do	do	National Bank of North America.	.7	E
*Do	do	Provident National Bank.	.8	E
*Do	do	Republic National of Dallas.	.01	E
*Do	do	Morgan Guaranty Trust Co.	6	E
*Do	do	Continental Illinois	4.7	E
*Do	do	Society National of Cleveland.	.7	E
*Do	do	U.S. National Bank of Oregon.	.8	E
*Do	do	Bankers Trust	5.1	E
*Do	do	Northern Trust Co.	.8	E
*Do	do	United California	2.1	E
*Do	do	Crocker National	2.6	E
*Do	do	Irving Trust	2.8	E
*Do	do	Marine Midland	1.6	E
*Do	do	Pittsburgh National Bank.	1	E
*Do	do	Security Pacific National Bank.	3.7	E
*Do	do	Wells Fargo	4	E
*Do	do	Chase Manhattan Bank.	6	E
*Wells Fargo International Investment Corp., New York	Investment corporation.	Wells Fargo	100	E
Wells Fargo & Co., of Cuba, San Francisco	Holding company	do	100	BHC
Wells Fargo & Co. of Mexico	do	do	100	BHC
Uganda:				
*Uganda Crane Industries Ltd., Kampala	Investment company	Irving Trust	5	E
Uruguay:				
*Union de Bancos del Uruguay, Montevideo	Commercial bank	Philadelphia National Bank.	2	E
Venezuela:				
**Banco Mercantil y Agricola, C.A., Caracas	do	Chase Manhattan Bank NA, N.Y.	30	E
*Continental de Creditos Mercantiles S.A., Caracas	Finance company	Northwestern of Minneapolis.	.7	E
Arrendadora Industrial Venezolana C.A., Caracas	Leasing company	First National Bank of Boston.	24	E
Continental de Creditos Mercantiles C.A		Crocker National	1.5	E
*Inversiones y Adelantos C.A. (INADECA), Caracas	Financial holding company.	First National City Bank, N.Y.	100	E
*Citicredito C.A., Caracas	Credit card	do	50	SE
*Arrendequipos C.A., Caracas	Leasing company	do	100	SE
*Adelantos y Creditos C.A.,, Caracas	Finance company	do	39.9	E
*Giros y Facturas Negociables, Caracas	Services	do	39.9	SE
Citidata C.A., Caracas	do	do	100	SE
*C.A. De Investigaciones Mercantiles, Caracas.	Credit investigation	do	39.9	SE
*Protinal, C.A. Valencia	Animal feed manufacturer.	Northwest National Bank of Minneapolis.	.5	E
Sociedad Financiera del Centro C.A. Caracas.	Finance company	Irving Trust		E
*C. A. Venezolana de Desarrollo, Caracas	Development finance company.	Northern Trust Co., Chicago.	1.3	E
*Do	do	Fidelity Bank Rosemont, Pa.	1.3	E
*Do	do	Chemical Bank	1.3	E
Sociedad Anoniona Escuela Campo, Alegre, Caracas.	Private school	do	.16	E
Sociedad Financiere Exterior C.A. (Finexca), Caracas.	Finance company	do	30	E
Companie Venezolana de Ganaderia Inc., Valencia.	Nonbanking	Kleberg First National Bank.	75	BHC
Rio Yaracuy C.A., Valencia	do	do	100	BHC
Financiera Nacional S.A., Caracas	Investment company	Wells Fargo	40	SE
Metro-America C.A., Sociedad Financiera	Finance	Bank of America	40	E
Negucios y Servicios Bimeca S.A., Caracas	Credit agency	do	100	SE

OVERSEAS INVESTMENTS OF U.S. BANKS—Continued

Name of country and overseas affiliate or subsidiary	Type of business	U.S. bank parent	Percent of ownership	Owned by—
Venezuela—Continued				
Finabac de Venezuela C.A., Caracas	Business credit institution.	First National Bank of Chicago.	100	SE
First Chicago (Venezuela) C.A., Caracas	do	do	100	SE
Consorcio Inversionista Merchantil y Agricola C.A., Caracas.	Holding company	Chase Manhattan Bank.	32.9	E
*C.A. Venezolana de Desarrollo, Caracas	Development finance company.	Manufacturers Hanover.	3.8	E
Sociedad Financiera Matlock C.A., Caracas	Credit agency	First Wisconsin	19.7	BHC
Sociedad Financiera Union, C.A	do	Marine Midland	40	SSE
Western Samoa:				
Pacific Savings & Loan Co., Ltd., Apia	do	Bank of Hawaii	38.9	SBHC
Vaito'a Hotels Ltd., Apia	Services	do	4.4	SBHC
Virgin Islands:				
**Vinbank Realty Inc., St. Thomas	Real estate agent	First Pennsylvania Banking & Trust Co.	100	A
Virgin Islands:				
Northern Offshore	Services	Marine Midland Bank	9.6	SSE
Yugoslavia:				
*Zavedi Crvena Zastova, Fiat SJA, Belgrave	Manufacturing	Franklin National	1	E
*Zavedi Crvena Zastava, Fiat, SJA, International Investment Corp.	Investment company	Marine Midland	4.2	SE
Zaire:				
*Societe Congolaise de Banque Kinshasa	Bankers	Bank of America	*.01	SE
Banque du Peuple, Kinshasa	Bank	do	.01	SE
Chemin du fer Kiva, Zaire	Transportation	Manufacturers Hanover.	.01	SE
*Firsf National City Bank (Zaire) S.A.	Commercial banking.	First National City Bank, New York.	100	B
Societe Textile De Kisangani	Textile mill	Chase Manhattan	18.8	E
*Banque Commerciale Zairoise, Kinshasa	Commercial bank	Morgan Guaranty Trust Co.	3.7	E
*Societe Financiere de Development, Kinshasa.	Development bank	do	3.1	E
Banque de Paris et des Pays-Bas, Kinshasa	Commercial bank	Crocker National Bank	16.1	E
Societe Financiere de Development, Kinshasa.	Investment bank	Philadelphia National Bank.	25	E
Zambia:				
**Commercial Bank, Zambia, Ltd., Lusaka	Commercial bank	Continental Illinois National Bank & Trust Co., Chicago, Ill.	13	E

Source: Federal Reserve Board.
Key to symbols relating to ownership:
A = Agreement Corporation
B = Bank
BHC = Bank Holding Company
E = Edge Act Corporation
S = Subsidiary
SBHC, SE, etc. = Subsidiary of Bank Holding Company, of Edge Act Corporation, etc.
SSBC, SSE = Subsidiary of a Subsidiary of a Bank Holding Company;
Subsidiary of a subsidiary of an Edge Corporation, etc.

APPENDIX B

LAWS REGULATING U.S. BANKS OVERSEAS

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APPENDIX B

LAWS REGULATING U.S. BANKS OVERSEAS

TABLE I.—ENTRANCE AND ORGANIZATION REQUIREMENTS

	Highest official level with discretionary powers of approval over U.S. bank entry	Demonstration of U.S. reciprocity	Restrictions on entry most effectively imposed by— Legislation	Restrictions on entry most effectively imposed by— Discretionary policy	License term	Capital requirements
WESTERN HEMISPHERE						
Argentina	Central bank	None required	X		Indefinite	Pesos 600,000,000 ($2,791,000) in Federal District of Buenos Aires. In other cities requirements vary according to population.
Bahamas	Parliament		X		1 yr	None specified.
Brazil	Executive decree (Ministry of Finance) and National Monetary Council (president of Central bank).	Required		X	Usually 20 yrs for commercial banks; variable for other banking institutions.	Identical to requirements of domestic banks and periodically revised by Central bank. Requirements vary with location, population, number of existing banks, etc. Deposits may not exceed 15 times capital and reserves. Foreign banks must meet additional requirement of presenting list of shareholders and their resolution to establish a unit, plus power of attorney.
Canada	Parliament	None required	X		Term of Bank Act—usually 10 yr.	Authorized capital stock of not less than Can$1,000,000 divided into shares of Can$10 each.[1]
Cayman Islands	Governor	None	X		Subject to discretion of administrator in Council.	Paid up capital of at least CI$100,000 or guarantee under seal of not less than CI$100,000 given by a holding or parent or other company approved by the administrator.
Chile	See explanation in footnote 2. According to decree-law 231 of December 1973, only officers of representations (representaciones) of foreign private banks presently permitted. State-owned foreign banks permitted.	Not applicable	X		30 yr, according to General Banking law.	See footnote 2.
Colombia	Banking superintendency (law 45 of 1923) under the President of the Republic (art. 120, sec. 14, 15 of Constitution).	None required	X[2]		Indefinite	At least 300,000 pesos in cities with a population exceeding 150,000 inhabitants (law 16/36).
Costa Rica	Central Bank, with a favorable report by the Auditor General of Banks.	do	X		30 yr which may be extended by the Central Bank.	Minimum: 5,000,000 colones for all private banks. The state-owned "national banking system" has special rates.
Guatemala	Junta Monetaria, Ministry of Economics	No	X		Indefinite	Junta Monetaria determines in each case No standard. requiremens. Quetzales: 2,000,000.00 for branches.

See footnotes at end of table.

TABLE I.—ENTRANCE AND ORGANIZATION REQUIREMENTS—Continued

	Highest official level with discretionary powers of approval over U.S. bank entry	Demonstration of U.S. reciprocity	Restrictions on entry most effectively imposed by— Legislation	Discretionary policy	License term	Capital requirements
WESTERN HEMISPHERE—Continued						
Honduras	Executive branch upon recommendation of the Central Bank.	None required		X	Indefinite	Minimum capital requirement of the Honduran branch or agency is fixed for each case by Central Bank, but cannot be less than 100,000 lempinas.
Jamaica	Parliament	do	X		1 yr	$5,000,000 of the subscribed capital paid up in cash at the time of the application; and, not less than $200,000 is held in Jamaica by the bank as assigned capital.
Mexico	Decree of Dec. 27, 1965 (P.O., Dec. 30, 1965)	Not applicable	X		Not applicable	As affecting existing banks, liabilities as defined, cannot exceed 15 times capital.
Nicaragua	Executive resolution of Ministry of Economics upon recommendation of the Central Bank.	Not required		X	Indefinite	Minimum: 5,000,000 córdovas for branches of foreign banks. For Nicaraguan banks, 3,000,000 in Santiago, 1,000,000 in other areas.
Panama	The Ministry of Planning and Political Economics and the National Banking Commission (cabinet decree 238 of July 2, 1974, and law 20 of Feb. 28, 1973).	None required		X	do	Minimum paid up capital of B/1,000,000.
Peru [3]	Central Reserve Bank	Not applicable	X		Not applicable	40,000,000 soles.
Venezuela	Law of Apr. 22, 1975, G.O. of May 22, 1975, prohibits new foreign banks in Venezuela, as a general rule. It accepts the existing foreign banks, the agencies (oficinas de representación) of foreign banks; technical or operational internal divisions of foreign banks (but not allowed to work as a bank); and new Latin American banks.	do	X		do	Minimum paid in capital of Bs40,000,000 if main office is located in Caracas (Distrito Federal) or Distrito Sucre of State of Miranda; and Bs20,000,000 if located in the interior (banks with more than 20 percent of the paid in capital owned by foreigners are foreign).
AFRICA AND MIDDLE EAST						
Cameroon	Counseil National de Crédit (National Council of Credit) under the authority of the Ministry of Finance.	None required	X		Indefinite	Minimum capital requirements identical to those of Cameroon banks.
Egypt	A presidential decree	do	X		do	500,000 Egyptian pounds.
Iran	High Council of the Iranian Central Bank	Not specified	X		Indefinite	200,000,000 rials.
Israel	The Governor of the Bank of Israel	Reciprocity is not a statutory condition to the issuance of a permit to	Primarily discretionary policy.		A license is required; its duration is normally not	The law requires that a foreign bank have a minimum capital equivalent to I£100. This figure no longer has any practical significance, and it is to be ex-

		a foreign bank, but the existence or nonexistence of reciprocity would normally be taken into consideration by the Governor in deciding whether or not to grant a permit to such a bank.			limited.	pected that the Governor would grant a permit to a foreign bank only after the minimum required capital has been established in each specific case.
Ivory Coast	Ministry of Economic and Financial Affairs	None required	X		Indefinite	Not less than 300,000,000 francs CFA ($1,500,000) and equal or higher than 8 percent of risk at last balance for commercial and savings banks or 12 percent of amount shown in last balance sheet by business and development banks.
ebanon	Council of Ministers (Cabinet) on advice of Governor of Central Bank.	do		X	do	Under new banking regulations, any new American participation must be in existing Lebanese entity which must have paid-up capital of LL3,000,000.
Liberia	The President of Liberia	do		X	do	Minimum required capital is not less than 250,000 Liberian dollars.
Morocco	Minister of Finance	do	X		Undetermined	2,000,000 dirhams minimum sum.
Nigeria	Federal Executive Council	do		X	Indefinite	Paid-up share-capital not less than 1,500,000 naira.
Saudi Arabia	Minister of Finance upon approval of the Council of Ministers.	do	X		do	Subject to such conditions as the Council of Ministers may stipulate.
Tunisia	The Ministry of Finance on the advice of the National Council of Credit based on the report of the Central Bank of Tunisia.	do		X	do	1,000,000 dinars which may be changed by a decree, but not less.
Turkey	The Council of Ministers upon the joint proposal of Ministries of Finance and of Commerce.	do		X	do	The total of the paid-up capital and the reserve shall not be less than 5,000,000 Turkish liras. This amount shall be less than 5,000,000 for cities having a population over 1,000,000 and not less than 3,000,000 liras for cities having a population over 500,000 and under 1,000,000 inhabitants.
United Arab Emirates	License issued by Currency Board Director	do	X		do	80 percent or more participation by nationals.
Zaire	Banque Nationale (Central Bank)	do	X		do	Minimum capital requirement is identical to that of Zaire banks, 30,000 Zaire ($60,000).
EUROPE						
Austria	Federal Ministry of Finance	None for banks, but required for other business activities.	Discretionary policy based on legal requirements subject to interpretation: qualifications for managers, prevailing local economic conditions, and availability of sufficient means to Austria to operate a bank.		Indefinite, but subject to revocation or suspension for causes.	No minimum requirements for banks, but for corporations, including corporations engaged in banking activities, there is a minimum of 1,000,000 schillings.

See footnotes at end of table.

TABLE I.—ENTRANCE AND ORGANIZATION REQUIREMENTS—Continued

	Highest official level with discretionary powers of approval over U.S. bank entry	Demonstration of U.S. reciprocity	Restrictions on entry most effectively imposed by— Legislation	Restrictions on entry most effectively imposed by— Discretionary policy	License term	Capital requirements
EUROPE—Continued						
Belgium	Banking Commission operating under supervision of Ministry of Finance.	None for banks, but required for other business activities.	[4]	[4]	No license required	The minimum capital requirement for a foreign bank to function in Belgium was increased 50,000,000 francs.
France	Counseil National du crédit with appeal to the Commission de contrôle.	do		×	Indefinite	Minimum capital requirements identical to those of French banks, the amount of which varies according to type of operation, form of organization, number of offices, the amount of the balance, as well as the engagements not included in the balance as they appear at the closing (of accounts) for the last 2 financial years.
Germany	Federal Banking Supervisory Authority (Bundesaufsichtsant fuer das Kreditwesen Berlin).	do		[5]	do	No requirement fixed by banking law.[6]
Greece	Ministry of Commerce with concurrence of Currency Committee.[7]	do		×	do	Minimum of 150,000,000 drachmae ($5,000,000).
Italy	Interministerial Committee for Credit and Saving, but actually the Bank of Italy which carries out the work and directives of this committee.	Not specifically required but to be taken into consideration by the Interministerial Committee in conjunction with the issuance of the license. However, a general principle of reciprocity may be invoked if Italian banking undertakings abroad are discriminated against or are not permitted to operate under the laws of the host country.		×	do	Requirements determined by the Interministerial Committee for Credit and Saving—actually the Bank of Italy—in conjunction with issuance of license.
Netherlands	Minister of Finance through the bank	None required	[8]	×	Indefinite	A minimum capital of f.100,000 is required. Under the new law this minimum will be f.500,000.
Spain	Ministry of Finance and Chief of State.[9]	Yes	×	×	Not determined	At least 100,000,000 pesetas in cities with a population exceeding 250,000.
Sweden	Not applicable	Not applicable	×		Not applicable	Not determined.

Switzerland	Federal Banking Commission	Effectively required	X	Indefinite	Minimum capital for a Swiss corporation is SwF50,000 of which 1/5—but at least SwF20,000—must be paid in.[10]
United Kingdom	Treasury through the Bank of England	None required	X	No license required	No legal requirements but size and status would be a factor. Full authorization unlikely if capital employed less than $1,000,000.[11]
ASIA					
Australia	Applications made to the Commonwealth Treasurer. Governor General has discretion to grant authority to carry on banking business.[12]	Not applicable	X	At discretion of Treasurer, usually indefinite.	Not applicable.
Bangladesh [13]	In law, the Governor of the State Bank of Pakistan; in practice the Ministry of Finance.	Required	X	Variable	Do.
Hong Kong	The Governor of Hong Kong, with the advice of the Executive Council.	None required, except for banks incorporated in one of Hong Kong's export markets which is not yet represented by a bank in Hong Kong, in which case reciprocity is required.	X	Indefinite	Capital of not less than HK$10,000,000. Branches of banking companies incorporated outside Hong Kong must have assets in excess of deposit liabilities by not less than HK$10,000,000.
India	In theory, the Governor of Reserve Bank; in practice, Minister of Finance on behalf of the Government of India.	Required	X	Variable	Rs 2,000,000 in Indian Government securities or cash plus 20 percent of annual profits which must be deposited with Reserve Bank. (There are no foreign currency requirements.)
Japan	Ministry of Finance	do	X	Indefinite	None for branches of U.S. banks.
Malaysia	Minister of Finance	None required	X	do	Net capital must be greater than M$5,000,000. Net working funds in Malaysia must be greater than M$2,000,000.
Pakistan	In theory, Governor of the State Bank of Pakistan; in practice, the Minister of Finance on behalf of the Central Government.	Required	X	Variable	5 percent of time and demand liabilities or a minimum of 2,000,000 rupees in Pakistan currency deposited with the State Bank, or in unencumbered securities or partly in cash and partly in such securities.
Philippines	Monetary Board of the Central Bank	None required	X	Indefinite	The amount of capital as approved by the Monetary Board must reasonably assure the safety of the interests of the public.
Singapore	The Monetary Authority of Singapore (MAS)	do	X	do	For banks with head offices outside Singapore, not less than S$6,000,000, with not less than S$3,000,000 to be held in assets approved by the MAS.
Republic of China [Taiwan].	Ministry of Finance	do	X	do	Ministry of Finance may require minimum capital (at present, about $500,000).
South Korea	Bank of Korea (Monetary Board upon recommendation of Superintendent of Banks).	do	X	do	Minimum of 400,000,000 won (about $800,000).
Thailand	Minister of Finance	do	X	do	Foreign banks must maintain assets in Thailand to a value of not less than 5,000,000 baht.

See footnotes at end of table.

TABLE I.—ENTRANCE AND ORGANIZATION REQUIREMENTS—Continued

	Type of organization for foreign banks to operate in country	Private banking institutions in which U.S. participation specifically not permitted	Restrictions on number of offices	Degree of participation permitted in locally organized affiliate	Restrictions on directorships held by nationals in locally organized affiliates	Country position on additional U.S. bank entry
WESTERN HEMISPHERE						
Argentina	Corporations (S.A.) except when established as a branch.	Not restricted	None officially, but foreign banks are not allowed to establish new branches outside Buenos Aires.	No restrictions on equity ownership.	Yes, as determined by pertinent authority.	Open on limited basis.
Bahamas	(a) Principal office in the Bahamas; (b) officer named as bank's authorized agent in the Bahamas; (c) authorized alternate.	None	None	No limitation	None	Open.
Brazil	Corporations, except credit corporations.	Not restricted	As applicable to all banks, the number of offices is dependent upon bank's capital funds and prior authorization by central bank.	No legal restrictions on equity ownership.	Directors should be residents of Brazil.	Open on a limited basis.
Canada	Locally organized affiliate (charactered bank).[14]	Not restricted	None	Single holdings are limited to 10 percent, whether it be a foreign or domestic group, and total foreign ownership to 25 percent.	A Canadian bank cannot have less than 5 directors, the majority must be "subjects of Her Majesty, ordinarily resident in Canada".[15]	Effectively closed.
Cayman Islands	No specific type but has principal office in the Islands, an authorized agent of the bank and an authorized substitute for authorized agent.	None	do	None	None	Open.
Chile	Office of representations (representaciones).	See footnote 2	Not applicable	Majority participation (up to 100 percent permitted but only in representative offices).	Not applicable	See footnote 2.
Colombia	Locally organized mixed corporation.	Not restricted	None, but subject to approval (law 45/23).	Up to 49 percent participation (decree 1900/73).	No known restrictions	Subject to the Cartagena Agreement of 1969.
Costa Rica	Locally organized affiliate corporations.	The majority of the banking system is state-owned but private banks are permitted either with local or foreign capital.	None	No restrictions on equity ownership.	None	
Guatemala	Must have a board of directors, except foreign branches. (Corporation seems implicit.)		do			

Honduras	Branch or agency organized under Honduran law.	Not restricted	None. The same rules as Honduran banks. Central Bank must approve new offices.	No restrictions on equity ownership.	do	Open.
Jamaica	Minister must be informed that any bank whose head office is outside Jamaica has: (a) principal place of business in Jamaica; (b) an officer named as the bank's authorized agent in Jamaica; and, (c) an authorized substitute for authorized agent.	None	None	Unrestricted	do	None.
Mexico	Not applicable	No foreign participation is permitted in banks, financiers, insurance companies, or underwriting firms.	Not applicable	Not applicable	None as affecting existing banks.	Closed.
Nicaragua	Branch	Not restricted	None	No restrictions on equity ownership.	None	Open.
Panama	No specific type required	do	do	do	do	Do.
Peru	Corporation or cooperative	No new foreign banks allowed.	None specifically stated but in practice limited to needs of service area.	Up to 20 percent of former foreign banks now nationalized under decree—law 19043 of Nov. 25, 1971.	Not applicable	Closed.
Venezuela	Not applicable to new entries. No specific type required to existing banks.	New U.S. investments in banks or other credit institutions are not permitted.	Existing U.S. banks cannot open new offices.	Not applicable with respect to new entries of capital. No apparent restrictions in existing banks, but they cannot increase the authorized capital.	No legal restrictions to existing foreign banks (the general rule for Venezuelan banks is that ¾ of the members of the board must be Venezuelans.	Government is closed to additional U.S. bank entry.
AFRICA AND MIDDLE EAST						
Cameroon	Banks are permitted to adopt the following forms: (a) company limited by shares; (b) limited partnership with share capital.	Not restricted, but any agreement is subject to prior consent of the Ministry of Finance.	None, but opening subject to the approval of the Ministry of Finance.	Participation permitted by approval of the Ministry of Finance.	Management personnel must be of Cameroon nationality.	Open.
Egypt	(1) Any organization that is capable of contributing to development projects of the country. (2) Investment banks. (3) Banks using local currency operating in cooperation with local capital owned by Egyptian nationals with a minimum of 51 percent participation.	Housing projects developed for investment purposes.	No restrictions	Open	Directorships of banks is strictly reserved for Egyptian nationals.	None.

See footnotes at end of table.

TABLE I.—ENTRANCE AND ORGANIZATION REQUIREMENTS—Continued

	Type of organization for foreign banks to operate in country	Private banking institutions in which U.S. participation specifically not permitted	Restrictions on number of offices	Degree of participation permitted in locally organized affiliate	Restrictions on directorships held by nationals in locally organized affiliates	Country position on additional U.S. bank entry
AFRICA AND MIDDLE EAST—Continued						
Iran	Public joint stock company with registered shares.	Not restricted	Discretion of the High Council of Iranian Central Bank.	No restrictions specified	None	Open.
Israel	Foreign banks may establish branches in Israel (after registration as a foreign corporation with the Registrar of Companies), or they may control a domestic company licensed to do banking business.	None	Establishing branch bank offices in Israel requires a permit from the Governor; there is no a priori limit on the number of such permits which may be granted.	100 percent foreign ownership is permitted.	There is no statutory restriction on the citizenship of directors of a bank operating in Israel, whether as a domestic or a foreign bank. It is normally expected that a majority of the directors of banks incorporated in Israel be Israeli residents.	Israel welcomes the entry of qualified American banks.
Ivory Coast	Company limited by shares	Not restricted but subject to approval by the Ministry of Economic and Financial Affairs.	None, but subject to approval by the Ministry of Economic and Financial Affairs.	Not restricted, but subject to approval by the Ministry of Economic and Financial Affairs.	None	Open.
Lebanon	Any further U.S. entry must be through an existing Lebanese corporation.[16]	Not restricted	Any new branches or offices must have prior approval of Lebanese authorities.[16]	Minority Lebanese interest is acceptable.	Majority should be Lebanese nationals (not related to actual stock membership).	Restricted.[17]
Liberia	No specific type required	do	As designated in the license	No restrictions noted	No restrictions noted	No restrictions noted.
Morocco	No restrictions	Open	Not restricted	Open	None	Open.
Nigeria	Nigerian incorporation is required.	do	Branch offices require consent in writing of the Central Bank.	Any proposed arrangement must be approved by the Federal Banking Commissioner on the recommendation of the Central Bank.	None, but it is advisable to have at least 1 Nigerian director.	No restrictions.
Saudi Arabia	None required	No restrictions	None	Not permitted	None	Open.
Tunisia	The type of joint stock company or any other type accepted as a part of the agreement. This type has to be in conformity with the laws of the country whose nationality they bear.	Not restricted	Subject to the authorization of the Minister of Finance and the Central Bank of Tunisia.	Not restricted	Directorships of a domestic or foreign bank is reserved for Tunisian nationals. However special permission may be granted.	Subject to authorization.

Turkey	Banks must be founded in the form of a joint stock company. Foreign banks must have the character of a joint stock company or an equivalent status according to the laws of the country whose nationality they bear.	do	Any new branches or offices must have prior approval of the Turkish authorities.	No restriction. But needs the approval of the Turkish authorities, after the shareholders, creditors, debtors of the bank are informed by an announcement lasting 15 days in at least 2 newspapers, including the Official Gazette. If within 3 months, no acceptable objection is raised, the participation, the merger, or the transfer is permitted by the Ministry of Finance.	No restrictions	Subject to the authorization of the Turkish authorities.
United Arab Emirates	Not required	No restrictions	All new branches are frozen for a 2-yr period.	[Dependent on Currency] Board's ruling.	None	Frozen up to a 2-yr period for all applicants.
Zaire	Banks are permitted to operate only as companies limited by shares.	Not restricted but subject to the approval of the Banque Nationale (Central Bank).	None, but subject to the approval of the Banque Nationale (Central Bank).	Participation permitted by approval of the Banque Nationale (Central Bank).	do	Open.
EUROPE						
Austria	None. However, the name of the firm must indicate "Bank" or "Banker." Organization may be sole ownership, corporation or company.	Not restricted	None, however, a license is required for each branch office.	No restrictions on equity ownership.	No restrictions, but subject to employment permit.	Open; encouragement of foreign investments.
Belgium	Banks are permitted to adopt any form or organization except Societe Cooperative.[18]	Not restricted	None	No restrictions on equity ownership.	None	Open.
France	No specific type required	do	None. The same rules and regulations apply to foreign banks as to French banks; new branches or agencies must have prior approval of the Conseil National du Credit.	do	Authorization from Ministry of Finance.	Do.
Germany	do	do	None but approval must be obtained from Federal Banking Supervisory Authority for each additional office.	do	None	Do.
Greece	Locally organized affiliates	do	None, but prior approval of Currency Committee must be obtained for establishment of new branches.	Foreign participation limited to 40 percent.	Majority of directors, at least 60 percent, must be Greek nationals resident in Greece.	Open only on a limited basis.
Italy	No specific type required	Not restricted by law	None but approval is required for opening of new branches.[19]	No. legal restriction.[20]	None	Open.

See footnotes at end of table.

TABLE I.—ENTRANCE AND ORGANIZATION REQUIREMENTS—Continued

	Type of organization for foreign banks to operate in country	Private banking institutions in which U.S. participation specifically not permitted	Restrictions on number of offices	Degree of participation permitted in locally organized affiliate	Restrictions on directorships held by nationals in locally organized affiliates	Country position on additional U.S. bank entry
EUROPE—Continued						
Netherlands	No specific type required but affiliates appear preferable under current regulatory climate.	Not restricted	None	Degree of participation in locally organized affiliates is closely scrutinized by Central Bank which may withhold approval when the degree of foreign ownership is not acceptable on grounds of banking policy.	There is no nationality requirement.	Open.
Spain	Locally organized affiliation	Not restricted	Regulated by decree 1312 of June 5, 1963	Up to 50 percent participation.	None officially but effectively restricted to 50 percent.	Open only on a limited basis.
Sweden	Not applicable	No foreign participation is permitted in any banking institution.[21]	Not applicable	None	Not applicable	Closed.
Switzerland	No specific type required but branches or affiliates are preferable.	Not restricted, but non-Swiss may not purchase shares in existing Swiss corporations (including banks).	None, but opening of additional offices is subject to approval.	No restrictions on equity ownership.	Majority of directors must be Swiss citizens, domiciled in Switzerland.	Open, with reservation.[22]
United Kingdom	No specific type required but branches are the normal form.[23]	Not restricted.[24]	None	No restrictions	Any holding in any British company by a nonresident of over 10 percent has to have prior approval for exchange control purposes.[25]	None.
ASIA						
Australia	Applicant has to be a body corporate.[26]	Trading banks	do	Not applicable to trading banks. No restrictions on equity ownership in other types of financial institutions.	None	Closed.

Bangladesh	A company (or corporation in the United States) under the Companies Act.	Not restricted	Each new branch requires approval of the State Bank.	Participation permitted	Not determined	Open.
Hong Kong	No specific type required	None	Approval of Commissioner of Banking required for establishing a branch in Hong Kong.	No restrictions	None	Except for applications from Hong Kong's export markets which are not yet represented in Hong Kong, all new applications for banking licenses have been refused since 1965; this applies to both foreign and domestic banks.
India	A company (or corporation in the United States) under the Companies Act.	Not restricted	No official restrictions but permission of reserve bank is required for opening of each branch.	Participation permitted	Not determined	Open.
Japan	Branches or Kabushiki Kaisha (Japanese corporation). At present all foreign banks operate as branches.	do	Each office requires Ministry of Finance approval. At present, it is almost impossible for any one bank to obtain approval to open additional branch offices.	Total foreign ownership may not exceed 15 percent.	None	Not determined.
Malaysia	No specific type required	None	None	Full participation allowed if initial approval is obtained. However, if a bank becomes 50 percent owned or controlled by a foreign government, it must be wound up.	do	At present, the Malaysian Government is not approving applications of foreign banks to establish branches in Malaysia
Pakistan	A company (or corporation in the United States) under the Companies Act.	Not restricted	Each office requires approval of State Bank of Pakistan.	Participation permitted	Not determined	Open.
Philippines	Legally organized corporation	Rural banks and others as declared by the Monetary Bank.	Subject to approval by the Monetary Board.	Not more than 25 percent of the net worth of the bank.	None	Do.
Singapore	Banks wishing to deal in the Asian Currency Unit (ACU) market must apply for authorization.	None	Subject to approval by the MAS.	Restrictions only against 50 percent or more of capital being owned or controlled by a foreign government or an agency of a foreign government.	Restrictions only against all or majority of directors being appointed by or on behalf of a foreign government or an agency of a foreign government.	Open on a limited basis: entry to the ACU market is still encouraged but entry to domestic banking business is more restricted.
Republic of China [Taiwan].	Either branches (essentially operating as agencies) or affiliates.	Not restricted	None officially, but at present, number is restricted by policy to 1.	No restrictions on equity ownership.	None	Believed to be still open.
South Korea	Branch or corporation	do	Each office requires approval of Monetary Board.	Not applicable to commercial banks.	Not applicable to commercial banks.	Not determined.

See footnotes at end of table.

TABLE I.—ENTRANCE AND ORGANIZATION REQUIREMENTS—Continued

	Type of organization for foreign banks to operate in country	Private banking institutions in which U.S. participation specifically not permitted	Restrictions on number of offices	Degree of participation permitted in locally organized affiliate	Restrictions on directorships held by nationals in locally organized affiliates	Country position on additional U.S. bank entry
ASIA—Continued						
Thailand	No specific type required	None in banks, but participation in finance companies and credit financiers require authorization by Minister of Finance.	Restricted to 1	No apparent restriction but degree is at the discretion of the Minister of Finance.	Not applicable to commerical banks.	Open.

[1] Directors must be absolute and sole owners of specific amounts of the issued stock based on the size of the bank's paid-in capital.

[2] In compliance with the Cartagena Agreement, foreign banks must become mixed corporations (corporations owned by national majority) by June 30, 1978, or withdraw from the country.

[3] Peru adhered to Andean Pact and the Cartagena Resolution 24 and 37 on Common Treatment of Foreign Investment. Foreign banks are no longer allowed entry.

[4] No restrictions on entry.

[5] Restrictions are not discretionary in the sense that authorities discriminate against entry of foreign banks. Same principles apply to all banks.

[6] Capital funds must be what is considered adequate by banking authorities, and are based on lending volume.

[7] Currency Committee is composed of the Cabinet Ministers and the Governor of the Bank of Greece.

[8] There are no restrictions on entry, and licensing under the new law will be based on objective criteria.

[9] At present, only four foreign banks operate in Spain: two French, and one English.

[10] Federal Banking Law of 1934, as amended, requires at least 1/20 of annual profits to be credited to reserves until amount equals 1/5 of capital. Where no capital is assigned, some annual proportion must be credited to reserves until reserves equal 1/20 of deposits.

[11] U.S. banks must be in a position to show capital structure and assets if requested.

[12] It has been the policy of the Australian Government since World War II to refuse to allow United States trading banks to carry on banking business in Australia. Applications to set up a representative office are usually allowed provided that there is no attempt to conduct banking business. The Government will only allow the establishment of new U.S. financial corporations, i.e., merchant banks and insurance companies where they would demonstrably benefit the Australian economy. The Financial Corporations Act, 1974, provides for the examination of the business activities and the regulation of certain activities of some corporations. The act gives the Government wide control over asset ratios in relation to the type of assets held, over lending policies and over interest rates receivable or payable.

[13] Information is based on the banking laws of 1971.

[14] Banking in Canada must be conducted under the provisions of the Bank Act which does not provide for agencies or branches of foreign banks.

[15] The Bank Act specifies that at least 3/4 of the directors must be Canadian citizens resident in Canada.

[16] Branches currently are restricted to existing number by discretionary policy.

[17] The Lebanese Government has announced that new banking licenses will not be issued for the time being. Establishment of new branches will not be permitted but purchase up to 100 percent in existing entities is permitted.

[18] Local affiliates are not required but in the past the Commission Bancaire recommended that certain foreign banks operate by subsidiary form, organized under Belgian law, with liabilities insured by the parent bank.

[19] Approval for opening of additional branches is difficult to obtain even for domestic banks.

[20] Degree of participation in locally organized affiliate is closely scrutinized by central bank which may withhold approval when degree of foreign ownership is not politically acceptable.

[21] Swedish law requires all bank shareholders in Sweden to be Swedish citizens or Swedish companies and associations.

[22] Native competition and distaste for American bank branch entry makes it difficult for entrant to operate unless local cooperation can be achieved.

[23] Branch would have to comply with Companies Act, 1948, 11 and 12 Geo. 6, c. 28, §§ 406-416. If it wished to offer a full banking service it would be necessary to achieve certain recognitions. (i) It would need to satisfy the Department of Trade and Industry that it could be properly treated for purposes of Money Lenders Act 1900–27 as bona fide carrying on the business of banking and obtain a certificate to that effect under Companies Act, 1967, c. 81, § 123. (ii) It would need to obtain recognition by the Inland Revenue as a bank under Income and Corporation Taxes Act, c. 10, § 54 in order to pay and receive interest without a deduction of tax and to enable its United Kingdom borrowers to claim income tax relief in respect of the payment by them of interest on advances out of taxed income, where this is permitted. (iii) It would need to be granted an Order of Exemption, or a Principal's License by the Department of Trade and Industry under the Prevention of Fraud (Investments) Act, 1958, 6 and 7 Eliz. 2, c. 42 in order to deal in securities in the United Kingdom. (iv) Branches of a foreign bank are treated as "residents" for the purposes of exchange control and they may not deal with any foreign currency or open accounts for nonresidents unless they are recognized as an authorized bank under the Exchange Control Act, 1947, 10 and 11 Geo. 6, c. 14. (v) It cannot advertise for deposits unless it clears its advertisements with the Department of Trade and Industry and fulfills the provisions of the Protection of Depositors Act, 1963, c. 16, or unless it is treated as a bank by the Department of Trade and Industry for the purposes of that act.

[24] It is unlikely that permission would be granted for participation in a discount house or in foreign exchange and deposit brokerage.

[25] It should be noted that no approval has ever been refused.

[26] See previous footnote. It is possible to enter Australia through a finance company affiliate.

TABLE II.—BANKING AND EXCHANGE REGULATIONS

Country	Investment requirements in national debt instruments	Deposit balance requirements in treasury, central bank, or clearing banks	Investment requirements in development banks, etc.	Prohibitions on types of loans extended by foreign banks not applicable to domestic banks	Application of foreign exchange restrictions on foreign banks	Banking authority as applied to foreign banks: Reserve requirements or liquidity restrictions (1)	Banking authority as applied to foreign banks: Lending restrictions (2)	Banking authority as applied to foreign banks: Informal agreements on deposit and loan interest rate limits (3)	Banking authority as applied to foreign banks: Banking regulations (1), (2), (3) equally enforced on foreign and domestic banks (4)
WESTERN HEMISPHERE									
Argentina	None	Minimum reserve balances must be deposited in Banco Central de Argentina.	None	None	As applied to domestic banks.	Yes	Yes	No. All regulations are established by the central bank application.	Yes.
Bahamas	do	"Statutory Reserve" percentage of its deposit liabilities in Bahamian dollars fixed by Bank at no less than 5 percent nor more than 30 percent, and not changed by more than 5 percent in any 30-day period.	do	do	Yes	Liquid assets not less than 10 percent in Bahamian dollars nor more than 30 percent.			Yes.
Brazil	do	Reserve must be deposited with Banco de Brazil; as well as cash holdings in excess of 20 percent of deposits. Reserves are deposited with central bank.	do	do	As applied to domestic banks.	Yes	Yes	Yes	Yes.
Canada	Not officially	Bank Act requires chartered banks to keep cash reserves with central bank at an average of 12 percent of demand deposits and 4 percent of time deposits unless changed by the Bank of Canada for all banks. Secondary reserves as set by the Bank of Canada must also be maintained.	do	do	do	Yes	Yes	Yes	Yes.

See footnotes at end of table.

TABLE II.—BANKING AND EXCHANGE REGULATIONS—Continued

Country	Investment requirements in national debt instruments	Deposit balance requirements in treasury, central bank, or clearing banks	Investment requirements in development banks, etc.	Prohibitions on types of loans extended by foreign banks not applicable to domestic banks	Application of foreign exchange restrictions on foreign banks	Banking authority as applied to foreign banks: Reserve requirements or liquidity restrictions (1)	Lending restrictions (2)	Informal agreements on deposit and loan interest rate limits (3)	Banking regulations (1), (2), (3) equally enforced on foreign and domestic banks (4)
WESTERN HEMISPHERE—Continued									
Cayman Islands	None	None	None						
Chile	Banks may invest in government obligations of all types without limitation.	Reserves are deposited with Central Bank.	do	Yes; see footnote 2, Table I.	As applied to domestic banks.	Yes	Yes	All banks observe the legal deposit and loan interest ceiling.	Yes, according to General Banking Law. but not presently applicable, as stated in footnote 2, Table I.
Colombia	do	Reserves must be deposited with Banco de la Republica.	Yes	Yes	do	Yes (decree-law 1973/31).	Yes		Yes.
Costa Rica	None	Not less than 10 nor over 50 percent of deposits must be held by Central Bank (in exceptional cases, deposits may exceed that limit, with interest rate of 3 percent).	None	None with respect to domestic private banks. Some types of loans are given only by state banks.	do	Yes: 10 percent of net profits constitutes "legal reserve."	Yes	No. Central Bank fixes loan interest ceilings.	Same treatment to all private banks. But, state-owned banks enjoy certain privileges.
Guatemala	5 percent of assets.	25 percent of reserves in the Bank of Guatemala.	None			50 percent of assets in real estate or fixed properties. Other special reserves optional, 10 percent of credits and titles, and 5 percent of investments on titles of	Loans may not exceed 80 percent of collateral guaranty in negotiable securities, 70 percent of other guaranties, and 50 percent on mortgage guaranty.	No	

						national debt.	1 yr common loans, 3 yr when pledging, 25 yr when mortgages. Ceiling determined in each case by Junta Monetaria.		
Honduras	Central Bank may require investments in Securities Fund of the Central Bank.	Central Bank may require a deposit in the Central Bank.	No	None	Private banks (foreign and domestic) negotiations in foreign exchange permitted; Central Bank regulates minimum and maximum rate of exchange.	Yes	Yes	Interest rate limits fixed by Central Bank.	Yes.
Jamaica	None	Cash reserve in deposit form in the Bank of Jamaica of not less than 5 percent of its deposit liabilities nor more than 15 percent.		None		Reserve fund 10 percent of profits earned in that year from bank's Jamaican operations transferred to credit of reserve fund until it equals the assigned capital [1] of the bank.		Yes, within specified limits.	No.
Mexico	Capital and reserves must be invested in assets payable in Mexico.	Existing foreign banks must maintain deposit balances with Banco de Mexico.	Banking law of 1966 prohibits investment in any kind of financial instituon.	do	As applied to domestic banks.	Yes	Yes	None	Yes; foreign bank operations established prior to 1965 law are subject to national regulations.

See footnotes at end of table.

TABLE II.—BANKING AND EXCHANGE REGULATIONS—Continued

Country	Investment requirements in national debt instruments	Deposit balance requirements in treasury, central bank, or clearing banks	Investment requirements in development banks, etc.	Prohibitions on types of loans extended by foreign banks not applicable to domestic banks	Application of foreign exchange restrictions on foreign banks	Banking authority as applied to foreign banks: Reserve requirements or liquidity restrictions (1)	Lending restrictions (2)	Informal agreements on deposit and loan interest rate limits (3)	Banking regulations (1), (2), (3) equally enforced on foreign and domestic banks (4)
WESTERN HEMISPHERE—Con.									
Nicaragua	None	No less than 10 percent nor over 50 percent of the deposits, in national currency, at the discretion of the Central Bank. The Central Bank may require the same for deposits in foreign currency in percentages of from 10 to 100 percent.	None	None	No	Yes. 10 percent of net profits constitutes capital reserve.	Yes. Cannot exceed 95 percent capital and reserves. Priority in loans to the agricultural sector.	No. Interest rate fixed by Central Bank of Nicaragua.	Yes.
Panama	do	None	do	do	There are no exchange restrictions.	Yes	Yes	None in effect	Yes.
Peru	do	Legal cash reserves must be deposited with Central Bank.	60,000,000 soles	do	As applied to domestic banks.	Yes	Yes	No informal agreements. All banks observe legal ceiling for deposit and loan interest rates.	Yes.
Venezuela	No official requirement.	At least ⅔ of cash reserves must be held in Central Bank.	None	None. Foreign banks cannot issue any kind of bonds.	Foreign banks are not permitted to sell foreign currency acquired, directly or indirectly, in the Central Bank of Venezuela.	Yes	Yes	Yes	Yes, if existing foreign banks keep only 20 percent of the capital of the Venezuelan affiliate. If more than 20 percent of capital is foreign-owned, they have restrictions.

AFRICA, MIDDLE EAST									
Cameroon	None	None	do	None	As applied to domestic banks excepting French franc zone countries.	Yes. Proper relationships between banks' funds and commitments, liquid assets and short-term obligations.	Yes, same as for domestic banks. Proportion of loans to own funds is regulated.	Any interbank agreement requires the prior consent of the Ministry of Finance.	Yes.
Egypt	do	Certain requirements must be met.	do	do	None	Yes	No restrictions	No such agreement exists.	Yes.
Iran	do	Determined by Central Bank	do	do	As applied to domestic banks.	Yes	Yes	Yes	Yes.
Israel	As a general rule, none. But if the bank has saving deposits, investment in the obligations of the State of Israel is required to the extent specified in the reserve regulations.	The Bank of Israel requires all banks doing business in Israel, domestic and foreign, to maintain reserves against deposits; the principal form of such reserves is deposits with the Bank of Israel.	do	do	Yes		The reserve regulations impose reserve requirements in Israeli currency against certain loans to the public.	In general, there are no informal agreements on deposit and loan interest rates. There are limits in loan interest rates in 2 areas: (1) loans linked to the cost-of-living index are subject, by law, to a maximum rate of interest; (2) loans for export promotion and other special purposes are granted at preferential rates, with the support of the Bank of Israel.	Yes.
Ivory Coast	None	None	None	None	As applied to domestic banks except for French franc zone countries.	Relationship between liquid assets and short-term liabilities must not be less than 75 percent.	Yes, the same as for domestic banks—75 percent of registered capital.	Rates are set by decree.	Yes.

See footnotes at end of table.

TABLE II.—BANKING AND EXCHANGE REGULATIONS—Continued

Country	Investment requirements in national debt instruments	Deposit balance requirements in treasury, central bank, or clearing banks	Investment requirements in development banks, etc.	Prohibitions on types of loans extended by foreign banks not applicable to domestic banks	Application of foreign exchange restrictions on foreign banks	Banking authority as applied to foreign banks: Reserve requirements or liquidity restrictions (1)	Lending restrictions (2)	Informal agreements on deposit and loan interest rate limits (3)	Banking regulations (1), (2), (3) equally enforced on foreign and domestic banks (4)
AFRICA, MIDDLE EAST—Continued									
Lebanon	None	Not enforced at present but Central Bank is authorized to impose reserve requirements. (Maximum of 25 percent on demand deposits and 15 percent on time deposits.)	None	None	As applied to domestic banks. (None now in effect.)	Yes, although none are currently in force.	Yes (None are now in effect.)	None in effect	Yes.
Liberia	An amount equal to 2 percent of the demand and time deposits and other liabilities may be required to be so invested.	Required reserves shall not exceed 15 percent of deposits and similar liabilities, either in cash holdings or in Central Bank deposits, or both in proportion as the Central Bank may require.	do	do	As applied to domestic banks.	Required reserves shall not exceed 15 percent of deposits and similar liabilities, as prescribed by the Central Bank. Liquid assets must be between 5 and 25 percent of aggregate deposits as specified by the Central Bank.	(1) Loans to any 1 person not to exceed 10 percent of unimpaired capital and unimpaired reserve account. (2) A bank can't use its own shares as security. (3) Unsecured advances to board members must be unanimously approved. (4) Unsecured advances to employees cannot exceed 1 yr's remuneration.	Every agreement in restraint of competition without prior approval of the National Bank is illegal.	Yes.
Morocco	Not required	Not less than 25 percent in Central Bank.	Not required	do	None	25 percent of the capital	None	Yes	Yes.

						must be deposited in the Central Bank.			
Nigeria	None	May from time to time be prescribed by the Central Bank.	None	do	As applied to domestic banks.	As prescribed by the Central Bank.	A limit of 33⅓ percent of the sum of the paid-up capital and statutory reserves of a bank to any one person.	The interest rate structure is subject to the approval of the Central Bank and is linked to its minimum rediscount rate.	Yes.
Saudi Arabia	do	The deposit liabilities of a bank shall not exceed 15 times its reserves and paid-up or vested capital. Every bank shall maintain with the Saudi Arabian Monetary Agency a statutory deposit of a sum not less than 15 percent of all its deposit liabilities at all times. In addition to the statutory deposit, every bank must maintain a liquid reserve of not less than 15 percent of its deposit liabilities. Such reserve must be in gold, cash, or assets capable of being converted into cash within a period of 20 to 30 days.	do	do	do	Yes	Yes	None in effect	Yes.
Tunsia	do	Reserve requirement must be met.	do	do	do	Yes	Yes	Yes, but within the limits fixed by the law.	Yes.
Turkey	do	It is cumpisory to set aside each year $\frac{1}{20}$ of the net profits as a general reserve fund, until it reaches ⅕ of the basic capital and to set aside 5 percent of the yearly profits as provisions for possible future losses, until the total of the provisions set aside are equal to the paid-up capital. Banks shall invest this reserve fund in internal State loan bonds or in bonds of the Amortization and Credit Fund.	do	do	do	Yes	Yes	Yes, but banks may not in any manner or form collect interest in excess of the limits and rates fixed by law.	Yes.

See footnotes at end of table.

TABLE II.—BANKING AND EXCHANGE REGULATIONS—Continued

Country	Investment requirements in national debt instruments	Deposit balance requirements in treasury, central bank, or clearing banks	Investment requirements in development banks, etc.	Prohibitions on types of loans extended by foreign banks not applicable to domestic banks	Application of foreign exchange restrictions on foreign banks	Banking authority as applied to foreign banks: Reserve requirements or liquidity restrictions (1)	Lending restrictions (2)	Informal agreements on deposit and loan interest rate limits (3)	Banking regulations (1), (2), (3) equally enforced on foreign and domestic banks (4)
AFRICA, MIDDLE EAST—Continued									
United Arab Emirates	None	Cash reserve must be met	None	None	As applied to domestic banks.	Yes	None	Interest rate as a return on deposits, and bank credits.	Yes.
Zaire	do	The Banque Nationale (Central Bank) has authority to impose requirements.	do	do	As applicable to domestic banks. Restrictions can be imposed by the Banque Nationale (Central Bank).	Reserve requirements are 10 percent of the registered capital.	The same as for domestic banks.	Interest rates can be set by the Banque Nationale (Central Bank).	Yes.
EUROPE									
Austria	do	Provided by law and agreements between the National Bank and the banking industry, requirements vary from time to time. The present deposit balance for demand deposits is 9 percent, for deposits of less than 12 mo, 7 percent, and long term, 6 percent. Deposit balance must consist either of cash at the National Bank or treasury bonds.	do	do	As applied to domestic banks.	Yes	Yes	Yes	Yes.
Belgium	Regulations suspended in 1962.	In respect to the deposit requirements as a policy imposed by the Banking Commission.	do	do	do	Yes	Yes	Yes	Yes.
France	None. The obligation to buy treasury bonds was abolished in 1969.	None	do	do	do	Yes	Yes	Yes. Minimum limits on deposit rates are set by Conseil National du Credit and im-	Yes.

								posed by Association Professionelle des Banques.	
Greece	As part of reserve requirements.	As part of reserve requirements.	do[2]	do	do	Yes	Yes	All rates are subject to maximum fixed by regulation.	Yes.
Italy	Informal[3]	All banks must deposit each month with the Bank of Italy the equivalent in cash of 15 percent of the deposits made during the previous month.	do	do	do	Yes	Yes	Not informal. There is an interbank agreement which must be followed by domestic and foreign banks.	Yes.
Netherlands	None	These requirements are part of reserve requirements and liquidity restrictions.	do	do	do	Yes	There are no lending restrictions.	Not determined	Yes.
Spain	Order of July 9, 1971 (B.O., July 10) fixes it at no more than 22 percent.	Yes	do	do	do	Yes	Yes	Rates are set by decree.	Yes.
Sweden	Foreign banks are not permited to establish branches or subsidiaries.								
Switzerland	None	None officially. Through "gentlemen's agreement," nonresidents comply with liquidity ratios and Swiss franc deposit requirements.	do	do	do	Yes	Yes	Yes	Yes.[4]
United Kingdom	None	None. Clearing bank accounts are maintained for working purposes only.	do	None, except Export Credits Guarantee Department medium term credit refinancing facility is restricted to British banks. All banks including foreign ones are eligible for short term credit loans.[5]	do	Yes. This applies only to clearing banks.	None	None. Bank may pay an interest rate higher than a building society on £10,000 or less.	Yes.
West Germany	None	Minimum reserve requirement with Central Bank which is applicable to all banks.	do	None	As applied to domestic banks. (No foreign exchange restrictions are in effect at present).	Yes	Yes	Yes. No informal agreements exist at present.	Yes.

See footnotes at end of table.

TABLE II.—BANKING AND EXCHANGE REGULATIONS—Continued

Country	Investment requirements in national debt instruments	Deposit balance requirements in treasury, central bank, or clearing banks	Investment requirements in development banks, etc.	Prohibitions on types of loans extended by foreign banks not applicable to domestic banks	Application of foreign exchange restrictions on foreign banks	Banking authority as applied to foreign banks: Reserve requirements or liquidity restrictions (1)	Lending restrictions (2)	Informal agreements on deposit and loan interest rate limits (3)	Banking regulations (1), (2), (3) equally enforced on foreign and domestic banks (4)
ASIA									
Australia	Yes	Yes	None	None	As applied to local banks.	Not applicable	Not applicable	Not applicable	Not applicable.
Bangladesh	20 percent of total liabilities in approved securities.	Cash reserve must be kept in State Bank.	do	do	do	Yes	Yes	Effectively applied.	Yes.
Hong Kong	None	None	do	do	No restrictions	Yes	Yes	Yes	Yes.
India	25 percent of total deposits are required to be invested in government securities.	3 percent of total deposits must be deposited with Central Bank.	do	do	As applied to domestic banks.	Yes	Yes	Effectively applied.	Yes.
Japan	None	Deposits must be made at the Central Bank. At present, the rates range from 0.25 percent for time deposits and 1.5 percent to 4.25 percent for demand deposits.	do	do	do	Yes	Yes	No	Yes.
Malaysia	Liquidity requirements on all banks have the effect of forcing banks to purchase government securities up to a certain level of their deposit liabilities.	Yes, with Central Bank	do	do	None	Yes	Selective credit policies to encourage lending to "bumiputras" (indigenous Malays).	None	Yes.
Pakistan	30 percent of total liabilities in approved securities.	Cash reserves must be kept in State Bank.	do	do	As applied to domestic banks.	Yes	Yes	Effectively applied.	Generally yes.
Philippines	No official requirement.	Required reserves to be deposited in the Central Bank.	do	do	do	Yes	Yes. Under sec. 31 of the General Banking Act.	All banks observe the legal interest rates.	Yes.

Republic of China (Taiwan).	None. The nominal requirement for investment in patriotic bonds for import tax is no longer in effect. [See footnote 10 in the old version.]	Reserve requirements must be met.	do	do	do	Yes	Yes	Yes	Yes.
Singapore	None	Foreign banks operating in domestic market are subject to minimum cash reserve requirement to be deposited with the MAS.	do	do	No exchange restrictions for foreign banks dealing in ACU market; restrictions for transaction involving Singapore residents.	For banks operating in the domestic market only, not for bank operating in the ACU market.	None	None	Yes.
South Korea	No official requirement.	Reserve must be deposited at the Central Bank at a certain rate (currently the percentage rate is 17 percent for time deposits and 24 percent for demand deposits) as determined by monetary board.	do	do	As applied to domestic banks.	Yes	Yes	Not informal. All rates are subject to the maximum set by monetary board; in practice, there is within such limits interbank agreement which must be followed by domestic and foreign banks.	Yes.
Thailand	None, but government securities may be counted toward cash reserve, currently prescribed at 6 percent of bank's total deposits.	6 percent of total deposits must be with the Central Bank.	do	do	do	Yes	Yes	None	Yes.

1 Assigned capital is such portion of the capital of a foreign bank, consisting of unencumbered assets specifically assigned by the bank to the financing of its Jamaican operations.

2 Foreign banks are expected to utilize dividends which they are not permitted to transfer out of Greece for long-term loans under terms set by the Currency Committee.

3 Government occasionally uses moral suasion over Italian banks to purchase debt instruments. This probably could apply to U.S. banks.

4 To the extent that banking authority regulations are disproportionately directed toward foreign business, foreign banks, tending to have large foreign businesses, suffer to a similar degree.

5 From time to time the Bank of England will issue voluntary guidance to all banks on sterling loans.

TABLE III.—OPERATIONAL REGULATIONS AND PRACTICES

	Authorized banking functions as applicable to foreign banks					
	Demand deposit solicitation from nationals	Time or savings deposit solicitation from nationals	Lending to nationals	Trust activities	Underwriting	Foreign bank access to services of central banks, clearing banks, deposit insurance, etc. (to extent available)
WESTERN HEMISPHERE						
Argentina	Yes	Yes	Yes	Yes	Yes	Equally available to foreign and domestic banks.
Bahamas	Yes	Yes	Yes	Yes	Yes	Yes.
Brazil	Yes	Yes, time deposits	Yes	Limited	Restricted	Equally available to foreign and domestic banks.
Canada	Yes	Yes	Yes	Limited	Limited (Federal, provincial, municipal and corporate Canadian bonds).	Equally available to domestic and foreign controlled banks.
Cayman Islands				Yes	Yes	Yes.
Chile	Not applicable.	Not applicable	Not applicable.	See footnote 2, Table I	No	See footnote 2, Table I.
Colombia	No	No	No	No	No	Equally available to foreign and domestic banks.
Costa Rica	Yes	Yes; time deposits (savings deposits only in State-owned banks).	Yes	Yes	Yes	Limited access by all private banks. May obtain loans, but rediscount only available to State-owned banks.
Guatemala	Yes	Yes	Yes	Yes	Yes	With approval of Junta Monetaria.
Honduras	Yes	Yes	Yes	Yes	Restricted	Equally available to foreign and domestic banks.
Jamaica	Yes	Yes	Yes	Yes		Equally available to domestic and foreign controlled banks.
Mexico	Yes	Yes; time deposits	Yes	Yes; for assets held in United States	No; but approval may be obtained	Equally available to foreign and domestic banks.
Nicaragua	Yes	Yes	Yes	No	Yes	Yes, access to loan discount and technical assistance of the central bank.
Panama	Yes	Yes	Yes	Yes; subject to charter	Yes; subject to charter	Equally available to foreign and domestic banks.
Peru	Yes	Generally; time only	Yes	No	No	Restricted.
Venezuela	Yes, except from national government, public corporations,	No savings deposits from residents.	Yes	Yes; authorization of the national executive and a deposit of Bs. 3,000,000 is required.	Restricted	Equally available to foreign and domestic banks but central bank would hesitate to rediscount for foreign banks.

	and munici-palities.					
AFRICA AND MIDDLE EAST						
Cameroon	Yes	Yes	Yes	Yes	Yes	Equally available to foreign and domestic banks.
Egypt	Yes	Yes	Yes	No trust activities		Do.
Iran	Yes	Yes	Yes	No trust law as such	Not for commercial banks	No distinction between foreign and domestic banks.
Israel	Yes	Yes	Yes	Yes	Yes	Yes.
Ivory Coast	Yes	Yes	Yes	Yes	Yes	Equally available to foreign and domestic banks.
Lebanon	Yes	Yes	Yes	Yes; but there is no trust law as such	Yes	Do.
Liberia	Yes	Yes	Yes	Yes	Not prohibited	Do.
Morocco	Yes	Yes	Yes	None	None	Do.
Nigeria	Yes	Yes	Yes	Yes	Yes	Do.
Saudi Arabia	Yes	Yes	Yes	Yes, but there is no trust law as such	Yes	Do.
Tunisia	Yes	Yes	Yes	There is no trust loan as such	Not for commercial banks	Do.
Turkey	Yes	Yes	Yes	No trust law as such for banks	Used by commercial banks	Do.
United Arab Emirates	Yes	Yes	Yes	Yes, but there is no trust law as such	Yes	Do.
Zaire	Yes	Yes	Yes	Yes	Yes	Do.
EUROPE						
Austria	Yes	Yes	Yes	No; however, a contract to that effect is possible.	No. Banks emit and commercialize their own debentures.	
Belgium	Yes	Yes	Yes	Yes; concept of trusteeship not provided by Belgian law.	Restricted. (Securities cannot be held longer than 6 months.)	Equally available to foreign and domestic banks with one exception. Institut de Reescompte et de Garantie does not give foreign lines for overdrafts to foreign banks.
France	Yes	Yes	Yes	No; trusteeship does not exist under French law.	Yes	Equally available to foreign and domestic banks.
Germany	Yes [1]	Yes [1]	Yes	Yes; within framework of German customs.	Yes	No restrictions applicable to U.S. banks per se.
Greece	Yes	Yes	Yes	Yes	Yes	Equally available to foreign and domestic banks except rediscount facilities which are not normally available to foreign banks.
Italy	Yes	Yes	Yes	Yes; but not by commercial banks	Yes; but not by commercial banks	Equally available to domestic and foreign banks.
Netherlands	Yes	Yes [2]	Yes [2]	Yes	Yes	Yes; at central bank (Clearing Bank Association does not accept new members).
Spain	Yes	Yes	Yes	Yes	Yes; but only by industrial banks for financiers, not commercial banks.	Equally available to domestic and foreign banks.
Sweden	Foreign banks are not permitted to establish branches or subsidiaries.					
Switzerland	Yes	Yes; time deposits	Yes	Yes	Yes [3]	Do.
United Kingdom	Yes	Yes	Yes	Yes, but branches have limited powers while subsidiaries have full power.	Yes	Yes, exactly the same but "lender of last resort" role of Bank of England applies only to discount houses.

See footnotes at end of table.

TABLE III.—OPERATIONAL REGULATIONS AND PRACTICES—Continued

	Authorized banking functions as applicable to foreign banks					
	Demand deposit solicitation from nationals	Time or savings deposit solicitation from nationals	Lending to nationals	Trust activities	Underwriting	Foreign bank access to services of central banks, clearing banks, deposit insurance, etc. (to extent available)
ASIA						
Australia	Not applicable.	Not applicable	Yes	Not applicable	Yes	Not applicable.
Bangladesh	Yes	Yes	Yes	Yes	Yes	Equally available to foreign and domestic banks.
Hong Kong	Yes	Yes	Yes	Yes	No	Equally available to all banks.
India	Yes	Yes	Yes	Yes	Yes	Equally available to foreign and domestic banks.
Japan	Yes	Yes	Yes	Restricted	Restricted	Do.
Malaysia	Yes	Yes	Yes	No	No	Do.
Pakistan	Yes	Yes	Yes	Yes, but there is no trust law as such.	Yes	Do.
Philippines	Yes	Yes	Yes	Yes	No	Equally available to foreign and domestic banks (sec. 78, Central Banking Act).
Republic of China [Taiwan].	No	Yes	Yes	No	No	Equally available to foreign and domestic banks.
Singapore	Yes	Yes	Yes	No	No	Do.
South Korea	Yes	Yes	Yes	Restricted	Restricted	These are generally available to foreign banks with certain exceptions. Discount and other finance facilities are not generally available to foreign banks as a matter of policy.
Thailand	Yes	Yes	Yes	Yes	Yes	Equally available to foreign and domestic banks.

TABLE III.—OPERATIONAL REGULATIONS AND PRACTICES—Continued

	Examination of foreign banks by banking authority	Foreign bank access to courts	Provisions for prior claim on assets by nationals	Requirements on number of nationals employed	Nonbank reports or regulations required by banks as foreign owned or controlled entities	Most restrictive regulations imposed on U.S. banks
WESTERN HEMISPHERE						
Argentina	On a regular basis and at any time.	Same basis as domestic banks.	Yes	Yes, to be determined by pertinent authority.	None	(1) Initial high capital requirement. (2) Difficulty in establishing additional branches especially in interior.
Bahamas	Yes	Yes, same as domestic banks.	None	None	do	Necessity of having a principal office in the Bahamas and an officer and alternate named as authorized bank agent.
Brazil	On a regular basis and at any time.	Same basis as domestic banks.	None; local creditors whether national or foreign, have preference.	Two-thirds of total salary expense must be paid to nationals or certain legal equivalents of nationals.	do	(1) Branch expansion by foreign banks. (2) Restrictions on profit remittances.
Cameroon	On a regular basis, by the Banking Control Commission of the Conseil National de Crédit (National Council of Credit) supervised by the Ministry of Finance.	do	None	Management personnel must be of Cameroon nationality residing in the country.	do	Foreign banks are permitted to operate if (a) original names are retained; (b) if information is supplied on operation with parents firms and foreign countries; and (c) foreign participation accounts for more than ½ of registered capital. Foreign exchange regulations which are not applicable to French franc zone countries.
Canada	No less often than once a year for all the affairs of a bank, including foreign assets or liabilities.	do	do	None	do	Legislation limiting ownership to 10 percent interest by any group, whether foreign or domestic. Total foreign ownership is limited to 25 percent.
Cayman Islands	Yes	Yes	No	No		License cannot be obtained by bank with head office or registered office outside Caymans unless bank has notified the administrator it has a principal office in Cayman Islands, an officer designated as its authorized agent in the Islands, and a substitute for him when authorized agent is absent or unable to perform his duties.
Chile	On a regular basis	Same basis as domestic banks.	None	Percentage of salaries paid to foreigners is restricted	None, in relation to office of representation.	Only offices of representation or State-owned foreign banks presently permitted. See footnote 2, Table I.

See footnotes at end of table.

TABLE III.—OPERATIONAL REGULATIONS AND PRACTICES—Continued

	Examination of foreign banks by banking authority	Foreign bank access To courts	Provisions for prior claim on assets by nationals	Requirements on number of nationals employed	Nonbank reports or regulations required by banks as foreign owned or controlled entities	Most restrictive regulations imposed on U.S banks
WESTERN HEMISPHERE—Continued						
Colombia	On a regular basis	None	None	None	None	Subject to the Cartagena agreement of 1969.
Costa Rica	Yes, twice a year	Same basis as domestic banks.	do	No	None (only the registration required for all Costa Rican corporations under the commercial code).	
Egypt	On a regular basis	Same access enjoyed by domestic banks.	do	Not determined	Not for commercial banks.	None.
Guatemala	At least twice a year without notice.	Same as nationals	Yes	None	No	Not applicable.
Honduras	At least once a year or more often if deemed necessary.	Same basis as domestic banks.	None	No percentage required. Work permits to foreign workers granted on basis of reciprocity.	None	None regarded as discriminatory or unduly restrictive.
Iran	Yes; at discretion of central bank.	Same as domestic	do	Not specified	In compliance with foreign employment regulation.	None.
Israel	Yes	Same basis as domestic banks.	No	No	The companies ordinance requires that a foreign bank registered to do business in Israel file a copy of its annual balance sheet with the companies registrar.	No special restrictions applied to U.S. banks per se.
Ivory Coast	On a regular basis by the banking control commission, under the authority of the ministry of economic and financial affairs.	do	None	None	None	Foreign banks are required to have a distinct bookkeeping system for local operations. Foreign exchange regulations which are not applicable to French franc zone countries.
Jamaica	Yes		None	do	None	License cannot be obtained by bank with head office outside Jamaica unless bank has principal office in Jamaica and 1 office designated as bank's authorized agent in Jamaica or his substitute.

Lebanon	None. (Banking secrecy law 1956.) Independent audits are submitted to central bank.	do	do	In principle, 100 percent of staff must be Lebanese, but certain percentage of administrative officers may be foreign. Ratio of Lebanese employees is usually 50:1.	do	(1) Present regulation confining entry into Lebanese market to purchase into existing facility. (2) Impossibility of having more than 1 branch or office. (3) Requirement pertaining to employment of nationals.
Liberia	Audit provisions the same as for domestic banks.	do	do	None noted	None noted	None. Restrictions are not discriminatory against foreign banks.
Mexico	On a regular basis	do	do	At least 90 percent of officers and employees must be Mexican. Executive discretion on prohibiting entry of foreigners can effectively reduce this ratio. (Foreign nationals can only be employed if it is demonstrated that local personnel are unable to perform functions.)	None	Law restricting any form of participation in a financial institution after December 1966.
Morocco	Yes	Open	do	None	do	None.
Nicaragua	Annual. External auditing.	Same basis as domestic banks.	do	75 percent of the employees must be Nicaraguans or foreigners with 10 years of residence. Limitation does not include managers, administrators, superintendents, and other technicians.	The capital of the foreign branch must be registered according to the Foreign Investments Law.	None regarded as discriminatory or unduly restrictive (institutions for loans and savings in housing cannot be constituted abroad).
Nigeria	Examiners from central bank to examine all banks periodically.	do	do	None, but expatriates are subject to a quota system imposed by immigration authorities.	None	Same as domestic banks.
Panama	Yes, on a regular basis	do	do	Every employer shall maintain at least 90 percent Panamanian workers and may maintain aliens specialized or technical personnel at no more than 15 percent of all personnel. Percentages of wages cannot be less than the above percentages (labor code, cabinet decree 252, Dec. 30, 1971).	do	None regarded as discriminatory or unduly restrictive.
Peru	On a regular basis and at any time.	do	Yes	High percentage of staff must be nationals: 2/3.	do	(1) High cash reserve requirement. (2) Nonaccess to savings market.
Saudi Arabia	On a regular basis	do	do	None	do	There are credit restrictions imposed on foreign and domestic banks, but there are no restrictions on U.S. banks per se.
Tunisia	do	do	do	Not determined	Mostly on report of foreign nationals employed.	None.

See footnotes at end of table.

TABLE III.—OPERATIONAL REGULATIONS AND PRACTICES—Continued

	Examination of foreign banks by banking authority	Foreign bank access to courts	Provision for prior claim on assets by nationals	Requirements on number of nationals employed	Nonbank reports or regulations required by banks as foreign owned or controlled entities	Most restrictive regulations imposed on U.S. banks
WESTERN HEMISPHERE—Continued						
Turkey	Examination of banks by sworn bank auditors attached to the Ministry of Finance.	Same basic as domestic banks.	Yes	Experts, experienced personnel may be used.	None	No special restrictions applicable to U.S. banks.
United Arab Emirates	On a regular basis	do	do	None	do	None.
Venezuela	On a regular basis and at any time.	do	do	At least 75 percent of officers and staff must be Venezuelan. Exceptions can be made (with approval) if qualified personnel is not available.	Branches are considered as domiciled in Venezuela and must comply with requirement of the commercial code.	(1) Law restricting any form of participation to a financial institution after 1975. (2) Prohibition to expand capital and offices to existing banks.
Zaire	On a regular basis by expert auditors certified and supervised by the Banque Nationale (Central Bank).	do	do	None	None	Must have a distinct bookkeeping system in the country. Foreign exchange regulations.
EUROPE						
Austria	On a regular basis, or for domestic banks, by the Ministry of Finance and the national bank.	do	None	None. Employment permit required prior to employment.	do	Discretion in licensing. Exchange controls under foreign currency law.
Belgium	On a regular basis	do	do	None; but citizens of some foreign countries must have prior approval of the Ministry of Labor and Employment.	do	No major restrictions on U.S. Banks per se.[4]
France	Must maintain a special accounting of operations effectuated in France. Same audit and inspection as imposed on French banks.	do	do	Percentage of French nationals is established by proper authorities.	do	No special restrictions applicable to U.S. banks.[5]
Germany	On a regular basis	do	do	None	do	No restrictions applicable to U.S. banks per se.[6]

Greece	do	do	do	No known restriction but aliens must obtain residence and work permits which are generally granted only to those who have skills not readily available in Greece.	do	(1) Lack of rediscount facilities. (2) Restrictions on remitttance of dividends.[7]
Italy	Carried out on a regular basis by the Bank of Italy, which under the bank legislation may also make extraordinary examinations of domestic or foreign banks.	do	do	None; but non-Italian staff members must obtain work permits.	do	Obtaining of license but with favorable treatment for the United States.
Netherlands	No fixed time schedule	do	do	None; but foreign nationals require employment permit which is readily obtainable.	do	No special restrictions applicable to U.S. banks.
Spain	On a regular basis	do	do	Not determined	do	No U.S. bank operates in Spain through branches or subsidiaries.
Sweden	Foreign banks are not permitted to establish branches or affiliates.					
Switzerland	Examination by outsiders is contrary to banking secrecy law. Bank records are regularly examined by resident auditor approved by Federal Banking Commission.	do	None	One of the managers must be Swiss. Working permits for foreigners are strictly controlled and issued only upon demonstration that functions cannot reasonably be fulfilled by Swiss nationals.	do	(1) Informal but effective competitive restrictions imposed by local banks. (2) Working permits.
United Kingdom	None, but financial statements are submitted monthly.	do	do	None directly but a United Kingdom national should be employed whenever possible.	None when operating unit is a branch; subsidiaries must file accounts with registrar of companies. Periodically banks are called in for a chat with the Bank of England.	No restrictions applied to U.S. banks per se.[8]
ASIA						
Australia	Not applicable	do	do	None	Not applicable	U.S. banks have not been permittep to establish banking offices including branches.
Bangladesh	On a regular basis	Similar to domestic banks.	do	Policy favors employing local nationals.[9]	Requires information on foreign personnel employed.	Capital requirements for banks incorporated outside Bangladesh.
Hong Kong	Yes, by the commissioner of banking.	Same basis as domestic banks.	do	None	None	None in particular directed toward U.S. banks.

See footnotes at end of table.

TABLE III.—OPERATIONAL REGULATIONS AND PRACTICES—Continued

	Examination of foreign banks by banking authority	Foreign bank access to courts	Provisions for prior claim on assets by nationals	Requirements on number of nationals employed	Nonbank reports or regulations required by banks as foreign owned or controlled entities	Most restrictive regulations imposed on U.S. banks
ASIA—Continued						
India	On a regular basis	Same as domestic banks.	None	No legal requirements but foreign banks are encouraged to keep expatriate staff at minimum levels.	A few miscellaneous reports are required in connection with foreign exchange obligations and expatriate personnel.	(1) Exchange control regulations. (2) Branching policy which tends to limit foreign banks to major cities and to favor British banks. (3) Reluctance on the part of reserve bank officials to give timely and definitive interpretations of various statutes, regulations, and policies pertaining to banking procedures.
Japan	do	Same basis as domestic banks.	do	None	None	Virtual impossibility of obtaining approval for additional offices.
Malaysia	Yes, by the central bank	do	None, but deposit liabilities in Malaysia have prior claim over all other liabilities of the bank.	There is the policy that companies are to employ a certain proportion of bumiputras or indigenous Malays, at present roughly 30 percent. This applies at all levels of employment and not just to the overall company figure, andi n accordance with official policy of assisting the indigenous Malays to help reduce the racial imbalance in the economy.	do	Present policy, applied to all foreign banks, of not granting any banking licenses.
Pakistan	On a regular basis	do	None	Pakistanization policy requires minimum percentage of country's nationals.	Report on foreign nationals employed.	(1) Restrictions on the maximum rates of interest that may be paid on time deposits which foreign banks observe and which is violated by domestic banks. (2) System of exchange control. (3) Capital requirements for banks incorporated outside Pakistan.

Philippines	Once a year or as deemed expedient.	do	Yes. (sec. 19, General Banking Act).	None	None	None to U.S. banks per se.
Republic of China [Taiwan].	On a regular basis	do	None	do	None, generally. Investment in locally organized affiliate must be approved per foreign investment law.	Restricted to one office.
Singapore	Yes, by the MAS	do	Where a bank becomes unable to meet its obligations or becomes insolvent, the assets of the bank in Singapore are to be available to meet all deposit liabilities of the bank in Singapore, and such deposit liabilities are to have priority over all other liabilities of bank.	do	None	Exchange restrictions, applied to all foreign banks in transactions with Singapore residents.
South Korea	On a regular basis	do	In the event of liquidation or bankruptcy, assets in Korea of a foreign bank are subject to prior claim by Korean nationals.	do	do	No special restrictions applicable to U.S. banks.
Thailand	Yes, by Bank of Thailand	do	None	do	do	Prohibition on branch banking by foreign banks.

[1] Although there are no restrictions on a foreign bank carrying demand and time accounts for German nationals, all banks must adhere to certain orders and agreements including an agreement on competitive practices.

[2] Close and restrictive regulation by governmental authorities might be considered the most difficult restriction but this close surveillance applies on a "big bank-little bank basis" rather than "foreign-native dimension."

[3] Although underwriting is open to foreign banks, engaging in this activity is at the risk of incurring the enmity of local competitors with potentially adverse results.

[4] Recent ceiling imposed on increased extension of total credit-applicable to all Belgian and non-Belgian banks—is the most restrictive regulation at the present time.

[5] Establishing an investment bank is virtually impossible. Many banking operations common in the United States cannot be currently carried out in France, e.g., mortgage financing, factoring trust operations, estate administration, etc.

[6] Close and restrictive regulation by governmental authorities might be considered the most difficult restriction but this close surveillance applies on a big bank-little bank basis rather than foreign-native dimension.

[7] Remittance of dividends currently limited to 3 percent (presumably of capital) and subject to approval by the currency committee.

[8] Deposit solicitation and lending to nationals is subject to license from the central bank which is readily given.

[9] Information obtained from the Embassy of Bangladesh.

[Note: The material which follows provides more detailed information concerning legal and regulatory restraints governing U.S. bank operations overseas. This additional information is intended to supplement the material presented in the preceding tables. It is organized by country and, as the footnotes indicate, was prepared in conjunction with the tables by various specialists in the Law Library of the Library of Congress. Where more detailed material is not available, an outline has been provided by the specialists indicating important gaps in the information.]

Argentina

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(*a*) Limits on deposits of resident nationals—domestic currency vs foreign currencies, all banks, domestic banks vs foreign banks.

Only national currency, except by permit from Central Bank. Governments, national or foreign also exempted.

(*b*) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

Permit from Central Bank in each case.

(*c*) Foreign bank access to savings deposits.

By permit.

(*d*) Code of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs domestic:

(*a*) Direct reserve requirements—all banks, foreign vs domestic—requirement that deposits be kept with central bank or government agencies.

All banks. 15 percent of assets to be increased annually with up to 20 percent of the profits.

(*b*) "Special deposits" as determined by Central Bank in each case.

(*c*) Secondary reserves.

(*d*) Liquidity ratios as determined by Central Bank in each case.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs. domestic.

Livestock, industry, commerce, housing, services, and development (non-traditional industries).

4. Credit ceilings—either re domestic inflation or balance of payments.

Yes, ceilings. For both imports and exports. Periodical revisions.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

Regular commercial banks may not operate on mortgages. Exceptions contemplated. Loan ceilings to be determined by Central Bank.

6. Interest rate limits—all banks, foreign vs domestic.

All banks. Loans to livestock and industry seven percent; others nine percent. Savings eight percent. Annual. Maximum on general loans 15 percent.

7. Exchange controls—all banks, foreign vs. domestic.

Yes, all banks.

8. Central bank credit—access and cost—all banks, foreign vs domestic. If there is nominal access, is there nevertheless discrimination?

9. Bank examination—all banks, foreign vs domestic. What is the interval and nature of examinations?

As needed and determined by Central Bank. Informative, partial or general, inspection of documents.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks; foreign vs. domestic.

All banks. May not own shares of other banks or commercial enterprises.

11. Evenhandedness of application of regulation overall.

Australia*

It has been the policy of the Australian Government since the Second World War not to allow foreign banks to set up banking businesses in Australia. For that reason it has not been possible to find any information about the restrictions on foreigners setting up banks in Australia. Three foreign banks were set up in Australia before the War; the Bank of China, the Bank of New Zealand, and the Banque Nationale de Paris. These banks come within Federal control although the Reserve Bank may treat them differently since they do not operate nationwide with a number of branches as do the other trading banks. The answers to these additional questions are based on the legislation and policy which exists in relation to banks operating in Australia today. For this reason there may be discrepancies between the answers here and those on the schedule.

1. Any Deposit Restrictions

There are no restrictions on deposits as such. However, the Reserve Bank in the course of its national monetary policy has tended to place strong emphasis on the restraint of bank lending and this has resulted in the slow growth in trading bank deposits.

In March 1969, trading banks were permitted for the first time to issue negotiable certificates of deposit. The minimum investment requirement is $A50,000 with maturities between 3 months and 2 years. The banks are free to set their own rate of interest up to the maximum set by the Reserve Bank. This has enabled the trading banks to compete with the outside money market and has helped them to restore a greater share of financing to the trading bank system. At the same time, however, this has enlarged the area which is open to direct control by the Reserve Bank.

The Banking Act lays a duty on the Bank to exercise its powers and functions for the protection of the depositors of trading banks.[1] Where a bank considers that it is likely to become unable to meet its obligations to depositors or is about to suspend payment, it is required to inform the Reserve Bank without delay.[2]

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*Prepared by (Mrs.) Audrey E. Glover, Legal Specialist, American-British Law Division, Law Library, Library of Congress, October 1975.

[1] Banking Act 1959–74, § 12.

[2] *Id.* § 14.

2. *Reserve Requirements*

(*a*) Trading banks are required to hold Statutory Reserve Deposits with the Reserve Bank.[3]

The Reserve Bank determines the amount that each bank has to have on deposit in its Statutory Reserve Deposit account. This amount is expressed as a percentage of the bank's current level of Australian deposits (the S.R.D. ratio). These assets are in the nature of a frozen account on which the banks cannot draw, their size being increased or reduced by a decision of the Reserve Bank. The S.R.D. ratio is uniform for each of the major trading banks and can be increased at 1 day's notice provided that it does not exceed 25% of the total deposits. The Reserve Bank pays an interest on the deposits at the rate of ¾%. Deposits in the Statutory Reserve Deposit have to be in multiples of $A1,000.[4]

(*d*) In 1956, the Reserve Bank persuaded the trading banks to agree to maintain ratio of their deposit liabilities in liquid assets and government securities (L.G.S.—liquid assets plus government securities.) Liquid assets are defined as cash with the Reserve Bank, notes and coin, Treasury bills and notes and other Australian Government securities. The agreement is that each trading bank will not allow its ratio of L.G.S. assets and deposits to fall below 18% which is the agreed minimum and if this is likely to happen they have to borrow from the Reserve Bank. For its part the Reserve Bank undertakes to administer the S.R.D. policy so that if bank lending is in accord with Reserve Bank policy, the trading banks generally will be able to maintain their L.G.S. ratios above the agreed minimum. The agreement is not statutory but the banks abide by it.

3. *Priority Investments*

There are no requirements with regard to priority investment for trading banks although there are for saving banks.[5]

4. *Credit Ceilings*

The minimum agreed L.G.S. ratio under which banks operate acts as a credit ceiling since if the banks make overdrafts available to their customers on a larger scale their deposit liabilities would rise rapidly and their cash ratios and their L.G.S. ratios would decline.

5. *Loan Restrictions*

In addition to the influence it exercises over bank lending through its regulation of bank liquidity the Reserve Bank has the power to determine the lending policies followed by trading banks and to give directions to them concerning the classes of purposes for which advances may or may not be made. The Reserve Bank is thus able to influence both the volume of bank advances and its distribution between industries or purposes.

The Reserve Bank also affects the ability of the trading banks to lend money since it can vary the percentage which the banks keep in Statutory Reserve Deposit and this curtails their powers to lend. It may mean that they are prevented from increasing their loans or that they have to slow down their actual rate of lending.

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[3] *Id.* §§ 19 and 20.

[4] *Id.* § 27.

[5] Saving banks are required to have 60% of their deposits invested in the following: deposits with the Reserve Bank, deposits with banks, Treasury bills or notes, Commonwealth or State Government securities, semi-governmental and local government securities and loans to the short term money market.

6. Interest Rate Limits

The Banking Act gives the Reserve Bank the authority, with the approval of the Commonwealth Treasurer, over the range of interest rates payable to or by banks.[6] By influencing the terms on which banks borrow and lend, the Bank is able initially to affect the flow of funds to and from banks and, to the extent that borrowers and lenders respond to changes in the terms of bank financing, ultimately to influence the general level of interest rates.

With regard to certificates of deposit, the banks are free to determine their own interest rates up to the maximum set by the Reserve Bank.

7. Exchange Controls

Australia's exchange controls are administered by the Reserve Bank, the object of which is to prevent unacceptable capital movements in either direction between Australia and other countries. The trading banks have been authorized to approve and complete some transactions of a current non-capital nature as agent for the Reserve Bank but all other transactions have to be transmitted through the Reserve Bank.

All arrangements and agreements which any bank in Australia makes which are likely to require periodic remittances abroad are required to be submitted to and approved at the outset by the Exchange Control. It is also necessary to obtain Exchange Control permission before any securities are sent out of the country.

Since 1974 direct investment in Australia by non-residents which is noticed via the exchange control mechanism has also been subject to screening by a Foreign Investment Committee set up by the Australian Government.

8. Central Bank Credit

All trading banks can always borrow from the Reserve Bank which acts as "lender of last resort." When banks borrow from the Reserve Bank they have to pay interest and if the Bank wishes to discourage borrowing it will make the rate of interest very high.

9. Bank Examination

All trading banks are required to prepare an annual balance sheet and statements of profit and loss, income and expenditure in respect to Australian business, liabilities and assets within Australia, debits to customers accounts, and statements of the bank's foreign position.[7] In addition, banks have to prepare statements of loans, advances and bills discounted, of deposits and any additional statements which might be prescribed.[8]

The Auditor-General is required under the Banking Act to periodically investigate the books, accounts and transactions of each bank and to furnish reports to the Treasurer and the Reserve Bank on the affairs of each bank.[9]

10. Cartel Restrictions

The Banking Act makes it illegal for trading banks that are going to enter into an arrangement or agreement to sell its business by

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[6] Banking Act, 1959–74, § 50.
[7] *Id.* § 52(1).
[8] *Id.* § 54(1).
[9] *Id.* § 61.

amalgamation or otherwise or to effect a partnership with another bank, to do so without the prior written consent of the Treasurer.[10]

11. Evenhandedness of Application of Regulation Overall

The question of evenhandedness of applications to foreign and domestic banks does not apply since foreign banks are not allowed to set up a banking business in the first place. The rules are applied evenly with regard to domestic banks.

Austria*

The banking industry in Austria is controlled by the following laws:

1. Kreditwesengesetz (Law Concerning the Credit System) of 1939;
2. Nationalbankgesetz (Law Concerning the National Bank) of 1955;
3. Devisengesetz (Law Concerning Foreign Currency) of 1946;
4. Aktiengesetz (Corporation Law) of 1965;
5. Gesetz gegen den unlauteren Wettbewerb (Law Concerning Unfair Competition) of 1923, as amended; and
6. Mitteilungen des Direktoriums der Oesterreichischen Nationalbank (Notices by the Management of the National Bank).

1. Deposit Restrictions

Operation of a bank in Austria is subject to licensing. The scope and type of banking activities for each bank, domestic or foreign, is specified in the license, and there are no other limitations. However, certain restrictions can be imposed by the National Bank of Austria pursuant to special legislation, such as the Foreign Currency Law (Devisengesetz of 1946), and these are applicable to all banks regardless of their owners.

a. *Limits on Deposits of Resident Nationals.*—There is no limitation on deposits by residents in either domestic or foreign currency in any bank.

b. *Limits on Inflows of Funds from Abroad.*—At present inflows of funds from abroad are subject to approval by the National Bank, and restrictions are more strict for amounts over 260,000 schillings. However, approvals of transfers of funds between residents and nonresidents who are related are freely granted. Although short term foreign assets and liabilities in convertible currencies of authorized banks are not subject to limitations, any increase over the April 1974 level is subject to the provisions of a gentlemen's agreement with the National Bank providing for a supplementary reserve requirement. Acquisitions of real estate and purchases of stock are subject to scrutiny as required by general economic conditions.

c. *Foreign Bank Access to Savings Deposits.*—A foreign bank has full access to savings deposits, just as any other bank, unless specifically excluded at the time of licensing.

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[10] *Id.* § 63(1).

*Prepared by George Jovanovich, Senior Legal Specialist, European Law Division, Law Library, Library of Congress, October 1975.

d. *Codes of Fair Competition.*—Competition for deposits is generally permissible, although it is subject to provisions of the Unfair Trade Law and special competition agreements of the banking industry. There are also agreements as to interest rates on deposits enforce by a committee of the banking industry.

2. Reserve Requirements

a. *Direct Reserve Requirements.*—The National Bank of Austria requires all banks, domestic or foreign, to maintain a minimum reserve in cash at the National Bank. The amount varies with the type of deposits, such as 9% for demand deposits, 7% for time deposits of a duration less than 12 months, and 6% for deposits of more than 12 months. However, for banks with deposits totaling under 40 million schillings, the reserve is 5% for demand deposits and 4½% for time deposits. Different reserve amounts, even up to 75%, were established for foreign deposits from 1972–1974. Although such reserve amounts are not now in force, they can be restated at any time.

b. *"Special Deposits"*.—Special deposits exist as an instrument of carrying out National Bank financial policy, such as buying government obligations on the open market, but are not in frequent use.

c. *Secondary Reserves.*—There are no secondary reserve requirements.

d. *Liquidity Ratios.*—Liquidity ratios are provided by the Law Concerning the National Bank and by agreements between the National Bank and representatives of the banking industry. There are two types of liquidity ratios, first and second degree, depending on whether a holding of cash or commercial paper of high convertibility is required.

Minimum reserves and liquidity requirements are computed separately for different purposes. However, funds deposited by banks in the National Bank as minimum reserves are considered in the liquidity ratio.

The present rates for banks are 10% for first degree liquidity (cash) and 30% for second degree (commercial paper). For savings institutions, the rates are 10% and 25%, respectively.

Liquidity ratios are not uniform for all financial institutions. They vary according to the type of the organization, e.g., cooperative credit institutions, agricultural banks, and mortgage banks. However, the first and second degree liquidity is limited to 40% combined of the deposits on hand.

Minimum reserves and liquidity requirements are not cumulative. They are computed separately for different purposes, but funds deposited by banks at the National Bank as minimum reserves are considered for the liquidity ratios.

3. Priority Investments

There are no legal requirements for priority investments. However, the National Bank may insist on special deposits, thus enabling it to exercise a certain pressure on banks.

A development bank known as the Kontrollbank was organized pursuant to the Bank Control Law (Kontrollbankgesetz) and is responsible for the financing of public works.

4. Credit Ceilings

Credit ceilings are an important instrument of monetary policy and are set by agreements made between banking authorities, i.e., the Federal Ministry of Finance and the National Bank, on the one hand, and representatives of the banking industry, on the other. Any disregard of credit ceilings entails certain measures applied by the National Bank, such as higher discount rates for refinancing credits through the National Bank.

Credit ceilings vary according to whether the institution is a bank, savings bank, mortgage bank, credit cooperative, etc. The percentage used to determine the credit ceiling of a financial institution is based on the amount of deposits a bank holds and its own capital designated to be loaned out. In the computation, a bank's capital reserves are included but not the value of its buildings.

The percentage of capital available for credit is 75% for all banks, but of deposits it is 75% for commercial banks and 65% for savings institutions. Rates for credit institutions vary from 50–75%.

Since 1973, however, the credit volume has been further limited by an agreement which limits the credit banks may extend to an increase of 1% per month of their capital.

5. Loan Restrictions

Underwriting of stock by banks is not customary, and not many corporations go public. Banks emit their own debentures and invest the proceeds in various industries. Such emissions have to be approved individually.

Although there are no loan restrictions, there is a requirement to notify the committee of the banking industry of loans exceeding 2 million schillings. There are many programs of subsidized credits for particular users with discretion exercised in the selection of banks participating in these programs.

6. Interest Rate Limits

Savings deposit rates are fixed by agreement. The present rates are: for deposits of 3–12 months duration, 5%; for those of 12 months or more, 5½; for 36 months, 6%.

Interest rates on loans are negotiable but depend somewhat on the discount rate of the National Bank. At present interest rates vary between 6½ and 7½%.

7. Exchange Controls

The Foreign Currency Law and the multiplicity of instructions and special rules issued by the National Bank have created an effective exchange control applicable to all banks.

8. Central Bank Credit

The National Bank has two types of credit applicable to all banks: discount credit and Lombard Loans involving securities. Officially there is no discrimination, as credit is based strictly on the financial responsibility of the borrower; however, the human element cannot be disregarded.

9. Bank Examination

Annual financial statements and balance sheets must be submitted to the Federal Ministry of Finance and the National Bank.

For commercial banks, the final annual statements have to be prepared by independent auditors. The statements of savings institutions and credit cooperatives are prepared by the controlling organization.

In addition to the above-mentioned regular examination, the Ministry of Finance has the right to order an examination of any bank to make sure that the licensing requirements are observed.

The National Bank also must be given complete information by banks in order for it to properly administer refinancing transactions and enforce exchange controls.

10. Cartel Restrictions

Banks are not subject to the new Cartel Law of 1972; however, the merger of banking institutions must be registered with the Cartel Registry.

11. Evenhandedness of Application of Regulation Overall

Present Austrian banking laws are based in general on German legislation introduced before World War II and as yet have not been replaced by new Austrian legislation. These laws are too rigid to fit the modern banking system which evolved as a result of economic conditions after that war, and there is a great deal of discussion on the need for an overall revision of banking laws. It appears, however, that the system is functioning without serious problems by means of gentlemen's agreements between the banking community and government fiscal authorities, as well as between the National Bank and the banking community, on reserves and liquidity ratios. Moreover, although licensing, central bank credit, and the authority to apply punitive or disciplinary measures for disregard of policy standards provide much room under this system for discretion and discrimination, economic writers and experts do not indicate abuses.

Bahama Islands*

Banking activities have been important in the development of financial stability in the Bahama Islands. In 1974 legislation was passed establishing the Central Bank of The Bahamas as a corporate body of the Bahamian Government. Its function is to promote and maintain monetary stability through the control of exchange rates, interest rates and the availability of credit in all its forms. It is responsible for the issuance of currency and the development of national banking statistics. It serves as the fiscal advisor and banker for the Government and as a liaison with the banking community of the Bahamas and is also charged with the regulation of banking institutions.

1. Any Deposit Restrictions

a. Resident nationals may place deposits in either domestic or foreign banks.

b. There is a requirement that the Bank determine at the time of its entry into the Bahamas that any foreign currency admitted is "freely convertible currency," that is, currency that is freely negotiable and transferable in international exchange markets at exchange rate mar-

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*Prepared by (Mrs.) Jean V. Swartz, Senior Legal Specialist, American-British Law Division, Law Library, Library of Congress, November 1975.

gins in accord with the Articles of Agreement of the International Monetary Fund.

c. Foreign banks have access to savings deposits and there is no restriction imposed preventing them from having such access.

d. No codes of fair competition have been found restricting the solicitation of the deposits of other banks.

2. Reserve Requirements

a. All banks must maintain a "Statutory Reserve," a percentage of its deposit liabilities in Bahamian dollars fixed by the Bank at not less than 5 percent nor more than 30 percent. This percentage cannot be varied more than 5 percent in any one month. Different percentages may be required for different classes of commercial banks. The Bank must include in the order fixing the percentages the amount that must be deposited in the Central Bank.

b. No mention is found of special deposits in the regulations.

c. There appears not to be any requirement for the maintenance of secondary reserves.

d. The liquid assets of a commercial bank on a monthly basis should not be less than the percentage of the amount of its deposit liabilities in Bahamian dollars as required by the Central Bank. The fixed percentage should not be less than 10 percent nor more than 30 percent and shall not be increased in any 30 day period by more than 5 percent.

The term "liquid assets" includes:

(1) notes and coins;

(2) any cash balance held at the Bank;

(3) money at call and demand balances at any financial institution carrying on business in the Bahamas;

(4) Treasury bills;

(5) stock of the Government;

(6) any instrument or security of a kind referred to in subparagraph (ii) of paragraph (f) of section 27 of the Central Bank Act;

(7) any freely convertible foreign currency;

(8) money at call and demand balances at any financial institution abroad being money at call or demand balances held in freely convertible foreign currency;

(9) any other asset designated for the purposes of this subsection by the Bank.

3. Priority Investments

Investments are not subject to any priority standards.

4. Credit Restrictions

The Central Bank possesses the power to control credit. It may do so by issuing regulations prescribing the maximum amounts of loans or advances that commercial banks may have outstanding at any one time or during periods specified in the regulations. It may also issue regulations giving the purposes for which, the maturities for which, and the security on which loans or advances may be made by commerical banks. These regulations may be applicable to all the loans of any specified commercial bank or to any specified class or classes of loans or advances of any such specified class or classes of such banks. Any such changes authorized by a regulation or regulations shall not

alter any existing loan or advance in effect at the time the regulation or regulations come into force. The effective date of the regulation after its publication in the Gazette must be 30 days or more after the date of publication.

5. Loan Restrictions

The Central Bank may not grant unsecured loans or advances to any person. The amount of any securities issued or guaranteed by the Government to the public with a maturity date 5 years after their date of issue (including any such securities held by the Bank as security for any loans or advances) may not be more than 20 percent of the demand liabilities of the Bank. The total amount of any securities bought, held or sold to promote the securities market by the Bank shall not exceed 5 percent of the total liabilities of the Bank (including any loans or securities held by the Bank as security for any loans or advances). Where loans are made on bills of exchange, promissory notes, other credit instruments, Treasury bills or securities of the kind mentioned in paragraphs (b) and (c) of § 27, they may not issue before a longer time than the maturity date of the instrument itself or 93 days whichever is the longer, and the amount of the loan must not exceed 85 percent of the market value of the instrument at the date the Bank acquires it. Loans made to the Government by the Bank shall not exceed in amount 10 percent of the average ordinary revenue of the Government or 10 percent of the estimated ordinary revenue of the Government, whichever is the lesser amount.

6. Interest Rate Limits

The Central Bank may set interest rate limits as part of its power to "do any other banking business incidental to or consequential upon the functions of the Bank." The commercial bank interest rate for savings accounts was 4 percent for both Bahamian and United States dollars. The rate of interest on loans to commercial companies was usually 10–11 percent in the latter part of 1973, and personal loans frequently are discounted on the installment basis with interest rates only a little more than in the United States. Interest rates on loans from savings and loan associations range from 10 percent upward while the associations pay from 5–6 percent on deposits made with them.

7. Exchange Controls

The Central Bank of the Bahamas is responsible for the administration of exchange controls and may delegate its authority to authorized dealers. Banks have been classified as authorized dealers.

The Bank has been given extensive power in the area of foreign exchange. It may buy and sell gold, foreign exchange, and foreign bills of exchange and securities of foreign governments. It may have deposits in any foreign financial institution and use such deposits any way the Bank considers it expedient for the Bank's performance of its purposes. It also has the power to borrow foreign currency from any foreign financial institution on such terms and conditions as it considers appropriate.

This power is restricted because the Bank is required to maintain a reserve of external assets which reserve may not at any time be less than 50 percent of the value of total of the notes and coins in circulation and the demand liabilities of the Bank. This reserve may consist of any combination of the following:

(*a*) gold (whether coins or bullion);
(*b*) notes and coins (other than gold coins);
(*c*) balances payable on demand held with financial institutions or agents;
(*d*) money at call;
(*e*) bills in the nature of Treasury Bills maturing within 184 days issued by any foreign government;
(*f*) marketable securities issued or guaranteed by any foreign government;
(*g*) any reserve asset deemed by the Board [of Directors] to be an internationally recognized reserve asset.

The securities described in (f) which have a maturity of more than 5 years may not make up more than 30 percent in value of the whole of the assets in the reserve of external assets.

Banks which have been authorized to act as dealers may permit winter residents and persons with residency permits but without work permits to open external accounts. Non-resident companies with direct investments in the Bahamas and non-resident investors may also open external accounts in authorized banks if they have the prior approval of the Central Bank. These external accounts are usually composed of foreign currency from outside the Bahamas, but income on registered investments may also constitute part of the external account. These funds may be transferred abroad.

Block accounts which are held mainly by emigrants are accounts which have funds credited to them which may not be used freely by non-residents. If the emigrant's account and the value of his assets exceeds B$25,000, the excessive amount over B$25,000 is credited to a blocked account. The amount so credited cannot be transferred for 4 years through the official exchange market. After 4 years they are transferable through the official exchange market and may be invested in some resident-held assets or spent locally for any other purpose.

Authorized dealers such as banks are restricted in their dealings with foreign currency and securities. They may make payments to nonresidents for residents for certain services and invisibles within certain limits for such payments for commissions, royalties, interest on Bahamian assets and insurance payments. Residents traveling to foreign lands are restricted in the amounts of foreign currency they may take with them, any excess amount must be approved by the Central Bank and all foreign currencies not used for travel may not be retained abroad for use on another trip or for other purposes and must be returned within a month of the resident's return to the Bahamas. There are also restrictions on the amount and the use of foreign currency for education abroad and for family support. The requirement that residents collect immediately all amounts due them in foreign currency from nonresidents and turn them for sale to an authorized dealer apparently has not been enforced.

There are also restrictions placed on the use of capital in exchange situations. The outflow of resident-owned capital is restricted, and there must be exchange control approval for capital transfers to countries outside the Bahamas. Central Bank approval is required for the acquisition of control by nonresidents of an incorporated company controlled by residents and for residents, both individuals and companies, to maintain bank accounts outside the Bahamas.

Direct investments outside the Bahamas through the use of the official exchange must meet certain standards for approval by the Central Bank of the Bahamas. If an adverse effect on the balance of payments is likely, permission is not granted. Inward investment by nonresidents too, unrestricted in principle, has been restricted in practice. The Central Bank must consent to the issue or transfer of shares in a Bahamian company to a nonresident and for the transfer of control of a Bahamian company to a nonresident. When the investment involves the transfer through purchase of real property, the nonresident must obtain permission to purchase the real property. Such permission is given if a fair price has been paid and the payment may be either in Bahamian dollars from an external account or in foreign currency.

The Central Bank must approve the purchase of any property outside the Bahamas, and if it is for personal use, the payment must normally be made with investment currency, and each family may only possess one property. If permission is granted, expenditures necessary to preserve the property or arising from its ownership must be paid for with foreign currency bought at the current market rate in the official foreign exchange market.

The sale of Bahamian securities may be made to all persons without regard to their residency, but the manner of payment is curtailed. Nonresident buyers have to pay for these securities either in Bahamian dollars from an external account, in funds eligible for credit to an external fund, or in Bahamian dollars obtained through the sale of foreign currency in the official foreign market. Bahamians may only purchase foreign currency securities with investment currency. The Central Bank must grant permission of all purchases, sales and switches of foreign currency securities in the Bahamas and of all switches of foreign currency securities by Bahamian residents wherever the transaction takes place. Such transactions must take place through authorized agents and held to the order of an authorized agent.

A resident who wishes to leave the Bahamas permanently, upon his departure acquires the classification of a nonresident. He may transfer his normal household and personal effect and up to B$25,000 of his Bahamian dollars at the current market rate in the official foreign exchange market. When he has an excess of Bahamian dollars over the B$25,000, this excess may be transferred in the official exchange market after 4 years or the investment currency market. The income accruing from this excess after he has become a nonresident is normally remittable at the current market rate in the official foreign exchange market.

Resident banks must have permission before they can make loans in domestic currency to any corporate body (other than a bank) resident in the Bahamas and controlled directly or indirectly by nonresidents. Foreign currency that has been deposited with authorized dealers can be loaned to nonresidents for any purpose.

8. Central Bank Credit

The Central Bank may accept deposits from any commercial bank or any public corporation.

9. Bank Examination

The Minister requires banks to publish in the Gazette at a stated time a "true and full yearly statement of its accounts." The auditor

of the bank shall have signed an attached certificate certifying that the statement has been properly drawn and is correct in all particulars. The auditor has the right to examine the books, accounts and vouchers of the bank at all times. The Minister shall take care that the form and particulars of the required statement are not contrary to the provisions of any law of the United Kingdom or any other country of the Commonwealth which have banks doing business in the Bahama Islands. Special returns containing such information as the Minister decides is reasonable to require must be submitted, but the commercial bank does not have to reveal the private account or accounts of any person who has dealings with the bank involved in sending in the return.

10. Cartel Restrictions

No information has been found that cartel restrictions exist in the Bahama Islands.

11. Evenhandedness of Application of Regulation Overall

Apparently, foreign and domestic banks have been functioning harmoniously in the Bahama Islands, and the application of the regulation has been satisfactory to the banks.

Belgium*

1. Deposit Restrictions

(*a*) *Limits on Deposits of Resident Nationals.*—According to the 1971 Report of the Belgian Banking Commission, branches of foreign banks located in Belgium are not subjected:

> . . . by the Belgian law to any limitation on their geographical area of activity and they may do business with their clientele without regard to residency or nationality.

The creation by a foreign bank of a branch and registering it in effect integrates it in the country's banking system, empowers it to fully develop its activities on the same level as domestic banks chartered under Belgian law.

Thus foreign bank branches are restricted in their operations only to the extent as are domestic banks, as for instance in regard to the liquidity ratio as stated in Article 11 of the Law of August 2, 1975 (*see infra*, no. 2). However, under certain circumstances, such as overriding concern of national monetary policy, the national interest may call for more restrictive measures than apply to domestic banks. Such a reservation is, for example, envisaged in the Treaty of Friendship signed on February 21, 1961, in Brussels between the United States and the Kingdom of Belgium. Article 6, paragraph 5, states that "each party reserves the right to determine the extent to which aliens may establish, acquire interest in, or carry on enterprises operating within its territories in . . . banking involving fiduciary or depositary functions. . . ."

(*b*) *Limits on Inflows of Funds from Abroad.* According to Belgo-Luxembourg Exchange Institute, the Belgian banks may receive on convertible accounts (which can be opened freely in the name of any nonresident) equivalents of currencies negotiated on the official

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*Prepared by Dr. Virgiliu Stoicoiu, Senior Legal Specialist, European Law Division, Law Library, Library of Congress, October 1975.

market. The balances may be used freely for settlements with residents:

> ... which either must or may be made through the official market, and they may be credited freely with proceeds from the sale by a nonresident of convertible currencies in the official market to authorized banks in Belgium or Luxemburg. Balances on Convertible Accounts may be transferred freely to other Convertible Accounts or be converted into any currency in the official market. Advances on Convertible Accounts other than mail-credit advances are subject to authorization by the IBLC. Convertible Accounts may be held in the form of sight accounts (demand deposits), prior notice accounts and time deposits.

The inflow of funds from abroad may be transferred freely also to financial accounts, which may be opened only for residents in convertible area countries (for example, foreign diplomats, foreign nationals employed by diplomatic missions accredited in Belgium, and by specified international organizations situated in Belgium).

However, on May 11, 1971, a prohibition was instituted on the payment of interest by banks in Belgium on balances in convertible accounts, which amounted to a limit on inflow of funds from abroad.

This prohibition was lifted on January 25, 1974. Banks were also again permitted to accept time or notice deposits on convertible accounts, provided the maturity did not exceed one year.

All banks are bound to respect the above rules, and no discrimination against the foreign banks could be verified in the material used for this report.

(*c*) *Foreign Bank Access to Savings Deposits.* Foreign banks' access to savings deposits in general varies, according to one writer on the subject and depends on "the orientation of the policy decided by each bank regarding the funds received from their parties." The decisions on this matter are related to "the volume of their own resources (*les fonds propres*) and the obligations toward third parties in respect to the use and particularly to the risk associated with the granting of credits."

The use to which deposits are put varies also with the risk criteria found to be present which are measured by a special banking formula. The regulation in force before the amendment of Article 11 (of the Decree of July 9, 1935) by the Law of August 2, 1975, grants each bank the liberty of regulating its own volume of reinvestment and the right to risk its own resources. (A bank's own resources may include only 5 percent of third party deposits.) However, the banking regulations establish a certain proportion between the total of the evaluated risks (*pondérés*) and the amount required from a bank's own resources by reporting both of them to the same unit of measurement, namely the liability to be covered.

In this matter, the Belgian banking regulations are referred to as a "regime based on responsibility within a framework of liberty [of action]."

Maintaining a correct proportion between the amount of a bank's own resources (*les fond propres*) and the deposits or the funds of third parties constitutes a necessary condition, but not one that is sufficient to determine the solvency of a bank.

The above regulations are (after the implementation of Article 11 of the Law of August 2, 1975) an element to be considered by the Banking Commission in formulating the monetary policy of the country, and in the future may affect the foreign banks more than domestic banks.

(*d*) *Codes of Fair Competition.*—The law of 1935 (Art. 15) restricts all banks from using their funds for influencing directly or indirectly the public opinion on any matters in which the banks may have a pecuniary interest.

The Statutes of the Banking Association state the general principle that all members must respect their obligations, and in addition such obligations are to be included at the end of all annual reports.

In cases of noncompliance with one's professional obligations, members are subject to various penalties according to the gravity of the facts: a simple warning or temporary or permanent exclusion. These sanctions are imposed by the Central Committee by means of a three-fourth's vote. Since July 1941, a special convention destined to assure the execution of inter-bank agreements has been in effect. According to Timmermans, this agreement, amended several times, bars any unfair or illegal competition which may damage the collective interests of the banking profession and the normal exercise thereof. It restricts the use of pressure against a client, within the context of fair competition. It also prohibits informing a client of another bank that it would be advantageous for the latter to open an account in a bank to keep one's supply contract with a certain company with which said bank has business dealings or which said bank controls, or suggesting to someone to enter into business relations with another bank or branch because it is closer than the former's bank. Underlining the fact to a customer that another bank does not have any foreign business connections, even in an isolated case, is also restricted by the convention.

The above agreements restricting solicitation of clients from another bank (i.e., for deposits to another bank) applies to all banks in the Belgian system, foreign or domestic.

2. Reserve Requirements

(*a*) *Direct Reserve Requirements.*—The banks in Belgium are subject to two kinds of reserves: the legal or statutory reserve and the monetary reverse.

The legal reserve is instituted to cover the eventual losses of the bank and must be permanently in existence. This is the reason why banks are obliged to earmark such deposits for this purpose only and separate them from all other assets of the bank. The funds constituting the legal reserve must be free of any encumbrances which may obstruct or impede their particular destination (e.g., they may not be pledged to secure a debt, etc.)

Article 13 of the Decree of July 9, 1935, on the Control of Banks states that Belgian banks must put their legal reserve into the securities issued by national or local governments. However, the same Decree, in Article 6, excludes foreign banks from the application of Article 13.

Companies are required to set aside 5 percent of their profits until the statutory (legal) reserve reaches 10 percent of their capital.

The monetary reserve was created by the Regulation of the Banking Commission Establishing a Monetary Reserve Ratio, issued on December 21, 1971. This decision implements the provisions of Article 10 of the Law of 1935 on the Control of Banks which requested the Banking Commission to "determine periodically the proportion which must exist for different categories of banks" between their liquidities and assets, on one hand, and their liabilities and obli-

gations on sight and short term, on the other hand; as well as between their capital and reserves on the one hand and their total amount either in deposit or the total obligations on sight and short term, on the other hand.

The reserve ratio applicable to the various categories of monetary and quasi-monetary liabilities are fixed by the Banking Commission on the recommendations of the National Bank of Belgium with due regard to the requirements of monetary policy and credit control (Art. 4). They must not exceed 20 percent for sight liabilities and liabilities for terms of not more than 1 month, and 7 percent for liabilities for terms of more than 1 month and for deposit passbooks. They should not be increased by more than 3 percentage points for each period of 30 days, without the approval of the Minister of Finance and the Minister of Economic Affairs. A bank is obligated to form a monetary reserve, according to this decision, only if the total of that reserve, computed in accordance with the decision, would exceed 20 million francs. When at least 1 of the reserve ratios mentioned above is fixed at a level exceeding two-fifth's of the maximum rate permitted, the Banking Commission may raise the amount of the exemption. Such reserve, according to Timmermans, "is in principle, formed by assets deposited at sight with the National Bank [of Belgium]. Nevertheless, other modalities may be considered. For example, the reserve may take the form of a compulsory acquisition by the bank of the public securities of a special type, or of the Government 'Fonds de Rentes,' or even of the securities of foreign countries."

The monetary reserve ratios policy was continued through the Law of December 28, 1973, under various decisions of the Banking Commission. In its Annual Report of 1973–1974, the Commission stated that this law allowed "the extension of the scale of the possible measures to be taken in the name of monetary policy. Beyond the creation of the deposits for the monetary reserve, it established all structural coefficients necessary for the monetary policy . . ."

The monetary reserve was constituted by special deposit at sight without interest in the National Bank and imposed in order to reduce the volume of monetary circulation.

(*b*) "*Special Deposits*".—The Law of December 28, 1973, specifically authorized the National Bank of Belgium in Article 1 (b) to recommend to the banks the creation in the National Bank of Blegium of "special deposits, in Belgian francs or in foreign currencies, interest-producing or otherwise, and which amount shall be established depending upon the elements or evolution of the elements which it [the National Bank] may determine."

On February 1, 1974, the reserve requirements on Belgian franc holdings in Convertible Accounts (both with respect to their level and any increases or decreases) were revoked; these requirements had been 25 percent of the net liabilities during the base period (August 31–November 1, 1972), plus (minus) 100 percent of any increase (decrease) since that period. The reserve requirement applicable to the debtor spot position in foreign currencies on the official market was abolished according the International Monetary Fund's 26th Annual Report on Exchange Restrictions of 1975.

(*c*) *Liquidity Ratios.*—The liquidity ratio (*coefficient de fonds propres*) is, according to the Decision of October 5, 1965, the "ratio expressed as a percentage of a total of a bank's own funds to average total liabilities." (What is considered the bank's own funds is stated in the Decree of November 24, 1937, issued under Article 12 of Decree No. 185 of July 9, 1935.)

The procedure for the calculation of the liquidity ratio implies the necessity of observing special banking technicalities which are described in detail in the above-mentioned decision, attached in translation to this report (*see Appendix on pages 1041 to 1044*).

On August 2, 1975, Article 11 of the Decree of July 9, 1935, on the Control of Banks was amended. It state that the Banking Commission, in order to control the solvency and the liquidity of banks, is empowered to establish for all banks or by categories of banks the proportions which must be respected:

(1) between, on one hand, some of their assets and the amounts of their monetary rights (*droit de recours*), and, on the other hand, the total or particular part of their liabilities and obligations;

(2) between, on one hand, their own resources (*fonds propres*) and, on the other hand, the total or particular parts of their liabilities and obligations or of assets and of their monetary rights (*droit de recours*);

(3) between, on one hand, their own resources (*fond propres*) and, on the other hand, the amount of their assets and the amounts of their monetary rights (*droit de recours*) against a specified enterprise or against a group of enterprises affiliated and constituting in fact a single risk;

(4) between the assets in foreign currencies in cash and on term, on one hand, the engagements in cash foreign currencies and on term, on the other hand, eventually through the foreign currencies and according to their respective maturities, or between these assets and engagements.

It is too soon to know how the new Article 11 will be implemented or what the liquidity ratio recommended this time by the Banking Commission and the National Bank will be in the context of the Law of December 28, 1973, which requests that there be established a minimum or maximum proportion between the various elements or certain elements of the components of the assets and the liabilities or the limits for certain elements of these components in such a way that these elements should be considered in their total amount, or when they vary, to take into consideration a period of reference, or according to these two criteria at the same time.

In 1974, the Banking Commission recommended that the bank's own resources may not at any time be less than the amount of their total and permanent investments, including real and personal property, participations and extended credits, legal reserve and payments due.

In researching the legislation, the Banking Commission's decisions, the doctrine on the reserve requirements, special deposits, and liquidity ratios, no written policy of discrimination against foreign banks doing business in Belgium could be located. However, this conclusion is valid only for the date of the legislation mentioned above, which does not include the latest Banking Commission decisions.

3. Priority Investments

Article 13 of the Decree of July 9, 1935, obligates Belgian banks to place their legal reserve into Government securities. However, Article 6 of the same decree exempts foreign banks from the application of Article 13.

4. Credit Ceilings

Banks are obliged to inform the National Bank of Belgium and the Banking Commission of the names of all clients to whom they have extended credit or given loans in excess of a million francs, according to Article 12, Decree of July 9, 1935. Until 1968, the private banks offered to provide 100 percent local financing to foreign investors, but because of the inflation, money became scarce in 1969 and interest rates rose to very high levels. The present trend in Belgium is toward restricting credit.

In 1975, the banks in Belgium were requested not to allow their net external debtor spot positions to increase beyond specific levels. In addition, a ceiling was imposed on the net foreign asset positions of Belgian banks (their net creditor spot positions in foreign currencies on the official market). Banks were also instructed that their overall foreign currency position relating to the official market (spot and forward combined) should normally be close to balance and should not register a substantial creditor or debtor position.

The credit ceilings vary because they are dependent on the economic policy of the Government. However, one may state that for 1975, the individual ceilings were fixed in keeping with the bank's size and turnover with a general minimum of 20 million francs and subject to a 10 percent leeway, regardless of whether the bank is domestic or foreign.

5. Loan Restrictions and Prohibitions Against Underwriting

In granting loans, not all banks have the same rules. It is possible that a bank may refuse a risk, and another bank may accept it. These rules are the result of many factors, which may be constant or may vary from bank to bank. Among the constant factors the most important are:

(1) the deposits;

(2) an evaluation of the future debtor (his solvency, capacity to pay in time, the prospect of a good investment of the loan, guarantees offered, commercial standing, and morality); and the

(3) the rentability or lack of rentability of the operation to be financed.

Variable factors that should be mentioned include:

(1) the general evolution of the economy and its particular circumstances;

(2) the speciality of the corporation requesting the loan;

(3) the monetary policy followed by the National Bank;

(4) certain measures and interventions by the legislature or Government through which the State may guarantee the payment of the loan when granted for certain investments; and

(5) the credit policy of the bank involved.

Borrowers may be classified into three categories: businessmen, the Government through its agencies, and private persons.

Belgian banks have always encouraged the extension of discount credit. Because of this credit policy, the banks were obliged to invest a great deal of their deposits in public securities and to reduce considerably, by this fact, their liquidity for granting loans in the private sector.

For discount credits, the banks established a maximum limit based on the solvency of the debtor, and varying with the kind of commercial instruments involved.

In respect to the granting of loans to private persons, the Belgian banks increased the amount of this type of credit after the second World War, especially to consumers. Usually, the loans were limited to an amount between 150,000–200,000 francs. This figure varied according to the purpose for the loan, the capacity of the borrower to repay it and the collateral and debtor's income.

Financing a sale on installments was regulated by the Law of July 9, 1957, which imposed a series of restrictions. However, if these rules, limitations, or monetary policy appears to be enforced at the discretion of the banks, such a situation is true only partially because the above decisions are based on the interpretation by the Banking Commission of the Law of July 9, 1935, on Banking as amended. For this reason, a retrospective review of Article 11 is absolutely necessary. Indeed, the new amendment of Article 11 by the Law of August 2, 1975, imposes "certain proportions" between the assets and resources of the banks and their liabilities. In this context, the bank must limit the loans to what exceeds the formula for this proportion as established by the Banking Commission. At the present time, there are no figures or decisions available as issued by the National Bank or the Banking Commission taken in implementation of the Law of August 2, 1975, Article 11.

According to Article 14 of the Law of July 9, 1935, as amended by the Law of August 2, 1975, banks constituted under any one of the forms stated in Article 8 are prohibited from possessing any share in the association or participating, under any form, in one or more commercial companies.

In respect to Belgian banks, the amendment of Article 14 did not erase but increased the confusion of what shares banks are allowed to subscribe to, because the former Article 14 expressly permitted Belgian "to possess" shares of another bank.

However, Article 14 does not apply to foreign banks as stated in Article 6, paragraph 2, of the Law of July 9, 1935 (it was *not* amended by the Law of August 2, 1975).

Moreover, when the emission of shares is by an international consortium of banks, foreign banks generally are permitted to participate in a trusteeship regulating the circulation price.

6. Interest Rate Limits

The Banking Commission was authorized by Article 11, paragraph 2, of the Decree of July 9, 1935, as amended, to establish the maximum interest rates applicable to certain categories of credit operations. However, the Law of August 2, 1975, amending Article 11, quashed the above jurisdiction of the Banking Commission. At the present time, no information could be located in the Library of Congress on how the rates will be established under the new provision. In April

1975, the interest rates were running between 11 percent and 14 percent, annually for discounting of trade bills; for the other type of credits, the maximum rate has been rising steadily, and in 1974, rose from 12.5 percent to 13 percent. These regulations were enforced against all banks in Belgium.

7. Exchange Controls

According to a Decree of 1944, the Government exercises control over the transfer of goods and other valuables between Belgium and other countries. It establishes the conditions under which the banks authorized to do business with foreign currencies may intervene. At the present time, the Belgo-Luxemburg Exchange Institute has jurisdiction over the exchange controls in the countries of Belgium and Luxemburg. There is no exchange control between Belgium and Luxemburg, however, according to one source; rather, the two countries constitute a single exchange control territory in relation to other countries. The Institute's Administrative Commission is authorized to determine the import-export policy and license trade transactions between the two countries.

The Government wants to ensure that settlements with foreign countries are made, according to the nature of the transactions, through the appropriate exchange market or where payments in Belgian or Luxemburg francs are involved, through the appropriate category of nonresident account.

All inward and outward transactions are divided into four groups. Those included in the first two groups are: merchandise, transport expenses, industrial expenses, insurance, salaries, pensions, fees, subscriptions, taxes and public administration payments which must be settled through the official market (or if made in Belgian and Luxemburg francs, through convertible accounts). Other transactions may be made either through convertible or financial accounts.

In the convertible accounts the balances are equivalent to currencies negotiated on the official market, and these accounts may be opened freely in the name of any resident.

No exchange control documentation is necessary for imports under 50,000 francs in value. Authorized banks are required to be certain that payment is made by one of the markets dealt with in the regulations and that the foreign exchange is not acquired until the import is due. If these requirements cannot be fulfilled, the authorized bank must obtain the special permission from the central exchange commission. Prior examination of supporting documents by the Belgo-Luxemburg Institute is required for payments exceeding 10 million Belgian francs. The exchange control approval is necessary for payments for imports more than 3 months before or 6 months after the date of customs' clearance.

All authorized banks are subject to control in their external positions and therefore transactions in foreign currencies are under the guidance of the Government:

> With effect from October 28 [1974], Belgian and Luxembourg banks were required to report daily both the opening and liquidation of forward exchange contracts in foreign currencies against Belgian or Luxembourg francs, classifying them according to whether they were transacted (1) on the official or free market or (2) with nonresidents, resident banks, or other residents. Total forward exchange transactions between two foreign currencies were also to be reported.

8. Central Bank Credit

The banking operations which the National Bank of Belgium is allowed to undertake are listed in Article 17 of its Statutes. According to this Article, the National Bank is entitled, among other things, to discount bills or buy any other commercial securities.

In execution of its mission, the National Bank grants credits of discount (*crédits de réescompte*) to the banks through a special Government agency, L'Institute de Réescompte et de Garantie. This agency grants these credits only on a case-by-case basis, after taking into consideration that the merits backing the solicitation of credit are well-founded. The investigation of the credit demand is not limited to the situation of the bank, but is extended to the client and the beneficiary as well. The nature of each individual operation is also studied before the Institute makes a decision on such credit. The Institute refuses to intervene when the "economic utility of the credit which is presented to it appears contestable." The National Bank cannot, for example, discount the bills which have to run more than 120 days.

The National Bank establishes its own regulations on matters of the admissibility of bills, etc., on credit discounts. These rules, as well as the discount rates vary depending on the monetary policy followed by the Government.

Therefore, the "cost" varies according to the rate of discount on a certain day established by the National Bank in accordance with the economic policy of the Government. In case of inflation, of course, the rate is higher than in normal years.

No discrimination against foreign banks could be found in the treatises and regulations consulted on this topic.

9. Bank Examination

The control of the application of bank regulations is entrusted by law to the auditors of the bank (Art. 19) and the Banking Commission (Art. 35). The auditors (*reviseurs*) are obliged to verify the books at least once a year (Art. 20). For foreign banks, the functions of the auditors are determined by the Banking Commission which must issue "the necessary regulations" (Art. 20, par. 2).

These bank auditors must immediately inform the representatives of the bank of any irregularities, illegalities of operations, or any breach of banking rules; in addition, "any auditor who has knowledge of any decision of the bank the implementation of which would constitute a criminal infraction shall exercise his veto against this implementation and immediately inform the Banking Commission. This veto has a suspensive effect for 8 hours" (Art. 23). The auditors, however, are not entrusted with fiscal control.

The Banking Commission supervises the activity of the auditors of the banks and periodically determines the liquidity ratio as mentioned in Article 11. It is within the jurisdiction of these auditors to informe the Banking Commission about violations by the bank in implementing the Commission's decision.

The auditors are selected by each bank from a list of persons agreed upon by the Banking Commission.

10. Cartel Restrictions

According to Article 4 of the Law of July 9, 1935, any merger of banks is void, unless it is authorized by the Banking Commission. The Belgian legislature wanted to submit to Government control the increasing tendency in Belgian business circles towards the concentration of capital. In cases which do not involve amounts of capital that are important enough and sufficient enough to influence the economy, the Banking Commission has not raised any objections. This attitude is in agreement with the provisions of the Law of May 27, 1960, on Anti-Trust, which was enacted to stop only those cartels which posed a threat to normal competition in business, and especially when the general and financial groups' domination requires Government intervention in such practices. Therefore, there is a difference in the application of Article 4 made by the Banking Commission permitting mergers of small banking capitals. However, the principle stated in Article 85 of the Treaty of Rome restricts cartels and only exceptionally admits them when they contribute to "ameliorate the production or distribution of products or to promote technical or economic progress," according to paragraph 3. The decision of the Government is subject to the European Economic Community's Court of Justice for interpretation of Article 85, i.e., how far the Belgian Government may impose its anti-trust policy.

11. Evenhandedness of Application of Regulation Overall

The Belgian Government reserved the "right to determine the extent to which foreigners may establish, acquire interests in, or carry on enterprises engaged within its territories in banking involving fiduciary or depository functions," when it signed the Treaty of Friendship with the United States on February 21, 1961.

Based on their regulatory powers, the National Bank of Belgium and the Banking Commission may issue decisions concerning financial policy involving the control over foreign currency exchange transactions, but do not do so outside the scope of the Treaty.

APPENDIX FOR BELGIUM

EXCERPT FROM CENTRAL BANKING LEGISLATION, A COLLECTION OF CENTRAL BANK, MONETARY AND BANKING LAWS, VOLUME II: EUROPE, STATUTES AND RELATED MATERIALS, SELECTED AND ANNOTATED BY HANS AUFRICHT WITH THE ASSISTANCE OF JANE B. EVENSEN, 1967, INTERNATIONAL MONETARY FUND, WASHINGTON, D.C.

[From the Regulation on Monetary Reserve Ratio, pp. 83–88]

CHAPTER VIII. GENERAL OR TRANSITIONAL PROVISIONS

Art. 92. Changes may be made in the By-Laws only at a General Meeting specially called for this purpose.

The General Meeting may make valid decisions on changes in the By-Laws only if the purpose of the amendments proposed has been especially indicated in the summons and if the members present at the Meeting represent at least three fifths of the capital stock.

If a first Meeting does not represent the portion of capital prescribed above, a new Meeting shall be called which shall deliberate validly regardless of the portion of capital present or represented.

In the two Meetings, no amendment shall be allowed unless it is adopted by a numerical majority of the shareholders present or represented and by a majority of the votes to which all the shareholders present or represented are entitled.

These amendments shall become effective only by government approval.

Art. 93. The Bank and its branches, offices and agencies must respect statutory provisions on the use of languages in administrative matters.

Art. 94. [Repealed]

THE REGULATION ESTABLISHING A MONETARY RESERVE RATIO [1]

The Banking Commission

Having regard to Article 11, § 1, of Royal Decree No. 185 of July 9, 1935 on the Control of Banks and the Rules Governing the Issue of Bonds and Other Securities, as amended by Article 8 of Royal Decree No. 67 of November 30, 1939[2];

Having considered the opinion expressed by the National Bank of Belgium on the need for introducing a means of influencing the supply of money and credit and for establishing such means in the form of a reserve ratio applicable to the total liabilities of a monetary or quasi-monetary nature;

Decides:

Art. 1. Banks shall set up a monetary reserve in conformity with the provisions of the present Regulation.

The monetary reserve shall be established on the basis of the monetary and quasi-monetary liabilities of the banks.

Art. 2.—(1) The monetary reserve shall be made up of funds maintained in a special sight deposit in Belgian francs with the National Bank of Belgium.

(2) The Banking Commission may, however, upon the reasoned proposal of the National Bank of Belgium, fix the part of the reserve which, depending on circumstances, may or must be made up of assets that are immediately realizable in Belgian francs and are maintained with the Securities Stabilization Fund [*Fonds des Rentes*] or of public securities of a special kind deposited at the aforementioned central bank.

These securities shall not be subject to pledges, objections or impediments of any kind.

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[1] The full title in French is Règlement de la Commission bancaire instituant un *coefficient de réserve monétaire*. In English it is Regulation of the Banking Commission Establishing a *Monetary Reserve Ratio*. The Regulation was issued on December 21, 1961, and entered into force on January 1, 1962.

[2] For the text of Art. 11 of the Banking Law, 1935, as amended, see below, p. 97.

Art. 3.—(1) For the purposes of the present Regulation, monetary and quasi-monetary liabilities shall be understood to mean liabilities payable in Belgian francs not covered by real guarantees, and with a contractual term of not more than two years, which are, regardless of their origin, in the nature of deposits, current-account liabilities, loans or short-term securities.

(2) These liabilities are grouped in three categories:

1. Sight liabilities or liabilities with a contractual term of not more than one month;
2. Liabilities with a contractual term of more than one month but less than two years;
3. Liabilities recorded in deposit passbooks under terms concerning withdrawal of deposits approved by the Banking Commission.

(3) For purposes of the present Regulation, the volume of monetary and quasi-monetary liabilities shall be established as of the last working day of each month.

It shall be used as the basis for calculating the monetary reserve for the monthly period beginning on the fifteenth day of the following month.

(4) The categories referred to in paragraph (2) of this Article may be taken together or separately; and they may be taken as a whole, or in respect of any increase they may have shown in relation to a reference figure, or as a combination of the latter and the recorded increase.

Art. 4.—(1) The reserve ratios applicable to the various categories of monetary and quasi-monetary liabilities shall be fixed by the Banking Commission on the recommendation of the National Bank of Belgium with due regard to the requirements of monetary policy and credit control.

(2) They shall not exceed twenty per cent for sight liabilities and liabilities for terms of not more than one month, and seven per cent for liabilities for terms of more than one month and for deposit passbooks.

(3) They shall not, except with the approval of the Minister of Finance and the Minister of Economic Affairs, be increased by more than three percentage points for each period of thirty days.

(4) Decisions made in implementation of the present Article shall enter into force on a date to be fixed by the Banking Commission; unless a new decision is made in the manner referred to in paragraph (1) of the present Article, they shall cease to be valid three months after entering into force.

Art. 5.—(1) A bank shall be obligated to form a monetary reserve only if the total of that reserve, computed in conformity with Articles 3 and 4, would exceed twenty million francs.

(2) When at least one of the reserve ratios is fixed at a level exceeding two fifths of the maximum rate provided for in Article 4(2), the Banking Commission may raise the amount of the exemption provided for in the preceding paragraph.

Art. 6. The present Regulation shall enter into force on January 1, 1962.

THE DECISION ESTABLISHING A LIQUIDITY RATIO [1]

The Banking Commission,

Having regard to Article 11, § 1, of Royal Decreee No. 185 of July 9, 1935 on the Control of Banks and the Rules Governing the Issue of Bonds and Other Securities, as amended by Article 8 of Royal Decree No. 67 of November 30, 1939; [2]

Considering that the Banking Commission's Decision dated December 31, 1962 maintained in force the provisions on this point covered by the regulations on statutory ratios dated January 29, 1946 and October 11, 1949 under the heading "Regulation of December 31, 1962 governing the solvency ratio";

Considering that, while it is justifiable to continue to require banks to hold a *certain volume of their own funds in relation to the volume of funds received from third parties*, and to set minimum levels according to a classification of banks into categories, it is desirable to operate this classification henceforth on the basis of the principal characteristics of the bank's structure, and particularly in terms the risk involved in granting credit;

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[1] The full title in French is Arrêté de la Commission bancaire instituant un coefficient de fonds propres. In English it is Decision of the Banking Commission Establishing a Liquidity Ratio. The Decision was issued on October 5, 1965 and entered into force on October 26, 1965.

[2] For the text of Art. 11 of the Banking Law, 1935, as amended, see below, p. 97.

Decides:

Section I.—Definitions

Art. 1. The liquidity ratio [*coefficient de fonds propres*] referred to in Article 5, below, is the ratio expressed as a percentage of the total of a bank's own funds to average total liabilities.

A bank's own funds shall be considered to be the total, less contingency reserve, of the items covered under the heading "not claimable" [*nonexigible*] in Schedules A and B attached to the Royal Decree of November 24, 1937, issued under Article 12 of Royal Decree No. 185 of July 9, 1935, adjusted by the addition or subtraction of declared profits or losses.

Average total liability is found by taking the arithmetic average of total liabilities for twelve consecutive months. Total liabilities means the total, at the end of each month, of the commitments, whether or not at fixed date or notice, payable in Belgian francs or in foreign currency, and consisting of deposits, balances on current account, loans or short-term securities.

Art. 2. The risk ratio [*coefficient de classement*] referred to in Article 3, below, is the ratio, expressed as a percentage, of the average total weighted risk to the average total liability as defined in the third paragraph of Article 1, above.

The average total weighted risk is the arithmetic average of the items composing the total weighted risk recorded at the end of each of twelve consecutive months. The total weighted risk is composed as follows:

A. (1) Three fourths of current or deposit accounts, whether represented or not by bills; banks' acceptances; bills of exchange other than those mentioned in A(3) below;

(2) One half of customers' liabilities for acceptances, less the bank's own acceptances; uncovered documentary credits granted at the request of, and for the account of, clients;

(3) One fourth of the rediscountable bills listed in Schedule A attached to the Royal Decree of November 24, 1937; rediscounted bills; bills taken from the bank's portfolio for encashment and security [*cautions*] and guarantees held for third-party account;

(4) One tenth of the day-to-day loans granted outside the guaranteed call money market in Brussels; advances to bankers, to the parent house and to branches and agencies; other banks' acceptances and uncovered documentary credits, whether confirmed or unconfirmed, opened at the request of bank correspondents;

(5) One fiftieth of the total outstanding forward operations owing to the bank in Belgian francs or in foreign currency;

B. Three eighths, one fourth, one eighth or one twentieth, depending on whether these items come under subheadings (1), (2), (3) or (4) of A, above, of credits of any kind whatsoever, whenever these credits exceed one fifth of the bank's own resources and are used by a single client or by several clients who can be considered, from the point of view of the risks involved, as forming a single group, regardless of their legal status or standing. It is to be noted that when covered by bank acceptances or by nonrediscountable commercial bills, the fraction of credits of this type to be taken into account will be one fourth and one eighth, respectively.

Section II.—Classification of Banks

Art. 3. Banks will be classified once a year according to their risk ratio [*coefficient de classement*].

The risk ratio for each bank will be calculated on the basis of its average total weighted risks and its average total liabilities for the twelve-month period ending two months before the close of the financial year.

Each bank will be notified of its classification not later than two months after the end of the period mentioned immediately above.

Art. 4. The first category will cover banks with a risk ratio of less than thirty-five per cent. Risk ratios above this figure will be divided into separate categories, each category covering one step of seven per cent.

Section III.—Required Ratio of Own Funds

Art. 5. Banks must observe the obligatory ratio laid down for banks' own funds [capital plus reserves] by the end of the seventh month following the end of the preceding financial year.

This ratio is calculated on the basis of the total of the bank's own funds at the end of the seventh month, and of average total liability for the twelve-month period mentioned in the second paragraph of Article 3, above.

Art. 6. The minimum mandatory ratio is set at five per cent for banks falling within the first category as defined in Article 4, above. This ratio will increase by one per cent for each higher category up to a maximum of fifteen per cent.

Section IV.—Transitional Provisions and Abrogations

Art. 7. The first classification will be undertaken and notified to banks before the close of the financial year current at the date of publication of this Decision.

Notwithstanding the provisions of the third paragraph of Article 1, the second paragraph of Article 2, and the second paragraph of Article 3, if a bank so requests, the first classification and the corresponding mandatory ratio will be worked out on the basis of average total liabilities and average total weighted risks for the period current at the end of the month of publication of this Decision and terminating at the end of the ante-penultimate month prior to the close of the financial year. However, if such a request is presented by a bank whose financial year ends on December 31, 1965, the reference period will be extended from October 1965 to December 1965; in that case, classification will be notified by March 31, 1966 at the latest.

Notwithstanding the first paragraph of Article 5, banks may observe their legal ratio for the first time by the end of one year from the date mentioned in Article 5. However, in this case, by the due date banks must hold the funds which were required or would have been required under the Regulation of December 31, 1962 governing the solvency ratio.

Art. 8. The Regulation of December 31, 1962 governing the solvency ratio is hereby abrogated.

Art. 9. This Decision shall come into effect on the day of its publication in the *Moniteur belge* [October 26, 1965].

Brazil

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

    (*a*) Limits on deposits of resident nationals—domestic currency vs. foreign currencies, all banks, domestic banks vs. foreign banks.

    Restricted to specific cases, all banks required to secure authorization by Central Bank.

    (*b*) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

    Restricted, specific cases, all banks.

    (*c*) Foreign bank access to savings deposits.

    No, only national banks.

    (*d*) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs. domestic:

    (*a*) Direct reserve requirements—all banks, foreign vs. domestic—requirement that deposits be kept with central banks or government agencies.

    Yes, 50 percent all banks, deposited in Banco do Brasil of subscribed capital, and two-thirds thereof within one year.

    (*b*) "Special deposits".

    10 percent of last year's exchange operations up to Cr $1,000,000.00 and no less than Cr $100,000.00 in either gold or Brazilian currency. 15 percent of sight deposits and 10 percent of time deposits.

    (*c*) Secondary reserves.

    (*d*) Liquidity ratios.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs. domestic.

Privileged status to agricultural and livestock credits, also regions of high national interest. Other priorities to be determined by National Economic Council.

4. Credit ceilings—either re domestic inflation or balance of payments.

Variable, depending on decision by Central Bank.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

Both controlled, all banks. Underwriting restricted.

6. Interest rate limits—all banks, foreign vs. domestic.

Six percent on general loans. Banks may go up to 12 percent.

7. Exchange controls—all banks, foreign vs. domestic.

Daily report of amount transacted to Central Bank.

8. Central bank credit—access and cost—all banks, foreign vs. domestic. If there is nominal access, is there nevertheless discrimination?

Equal access when capital fully incorporated.

9. Bank examination—all banks, foreign vs. domestic.

All banks, regular intervals and at any time when so determined by authorities. Records and documents. Reports upon request.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks; foreign vs. domestic.

Foreign banks, the original jurisdictions of which restrict Brazilian banks, may only control 30 percent of shares in national banks.

11. Evenhandedness of application of regulation overall.

Reciprocity of treatment in accordance with foreign jurisdiction's standards applied to Brazilian banks.

CANADA*

The Canadian banking system consists of the Bank of Canada as the central bank and ten chartered banks. The Canadian Banking Act, 1967 places emphasis on the specific incorporation of the chartered banks rather than the general subject of banking. It does not define nor limit the business of banking and provides no general regulatory provisions on those agencies providing these services. There is a limitation on the amount of shares that may be held by nonresidents, but similar restraints are placed on corporate ownership in other business categories as well. There are, however, no restrictions on shareholding or the extent of activities of many corporations engaged in a wide range of banking activities with the exception that the words "bank," "banker," or "banking" cannot be used to indicate its business.

There has been a proliferation of institutions receiving deposits and making loans—resulting in a "dual banking system." The ability to operate outside the reserve and other requirements of chartered banks has favored the growth of these "non-banks."

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*Prepared by Robert L. Nay, Assistant Chief, American-British Law Division, Law Library, Library of Congress, November 1975.

There is presently a great deal of agitation that all institutions performing banking functions be brought under some form of federal regulation. The next bank act revision, scheduled for 1977, will no doubt reflect some of the requested changes.

Foreign banking entities operate in Canada under virtually no control. They do not even need a special license. There are about 180 of these foreign financial institutions operating in Canada with assets exceeding $1.8 billion.

1. Deposit Restrictions

The federal government requires that all federally chartered banks, trust companies and loan companies insure individual customer deposits up to $20,000. This applies to foreign financial institutions as well. The requirement has been competitively advantageous for smaller banks and "non-bank" institutions.

a. Any person may make a deposit regardless of age, status or condition in life. The bank must pay the principal and interest on the order of such person, unless a formal action has been instituted against the bank before payment has been made.

b. There is an understanding with the government that banks can take foreign money on deposit from non-residents as long as it is not used to lend to Canadians. There is no limit on the inflow of funds from abroad as long as it is to be used abroad.

Deposits by U.S. residents have varied during the past 10 years between 11 percent and 46 percent of the total deposits in Canadian banks. Both the U.S. and Canadian guidelines have been responsible in the past for these fluctuations. Under the 1965 U.S. guidelines, financial institutions and commercial enterprises were requested to reduce their holdings of U.S. dollars outside the U.S., a substantial proportion of which were in Canadian banks. Under Canadian guideline 3, funds raised by the chartered banks in the form of increased liabilities to U.S. residents had to be used to increase claims or reduce liabilities in Canada. This prevented Canadian banks from borrowing funds in the U.S. and placing them in U.S. assets. It also served to increase the U.S. balance of payments deficit in terms of "liquidity definition," which was the reason for preventing it. Since 1971, the reduction in claims on U.S. residents enabled some of the banks to use funds raised from U.S. residents to reduce liabilities to Canadian residents.

c. There is no distinction made between a non-resident individual or banks as far as access to savings deposits is concerned.

d. Agreements among banks on interest rates on deposits and interest rates and charges on loans are prohibited. Banking in Canada freely competitive and this applies to deposit solicitation as well as interest rate limitation.

2. Reserve Requirements

The reserve requirements in the Banking Act apply only to the chartered banks and their branches and not to the non-bank financial companies or foreign agencies.

a. The reserve requirements against current account deposits are not to be less, on the average, than 12 percent and against deposits "payable after notice in Canadian currency," not less than 4 percent. The 4 percent applies to all savings deposits.

b. The banks may hold contingency reserves in addition to specific reserves for anticipated losses on particular accounts. The Inspector General of the Bank is entitled to know the amounts held by the banks for this purpose.

c. The chartered banks are required to hold a secondary reserve in addition to the primary reserves. The percentage of assets required to be held is subject to change by the Bank of Canada and may vary between 0 percent and 12 percent of bank deposit liabilities. This reserve is composed of: 1) notes and deposits with the Bank of Canada, 2) treasury bills with initial maturity of less than 1 year, and, 3) day loans to specific investment dealers.

No reserves need be held against debentures. Adequate assets against any liabilities payable in foreign countries must be maintained by any bank holding them. The latest determinable reserve ratios from July, 1975, are as follows:

	Percent
Cash reserve ratio, actual (required)	6. 07 (6. 02)
Secondary reserve ratio, actual (required)	6. 00 (5. 50)

This form of reserve distinction has in effect reduced the comprehensive reserve ratio of banks to about 6 percent.

d. Prior to the Bank Act, the liquid asset ratio varied between 15 and 19 percent based on agreements between the banks and the Bank of Canada. The Bank Act, 1967 made the liquid asset ratio a legal requirement which the Bank of Canada can vary from 0 to 12 percent over and above the cash reserves. One aspect of liquidity management that relates to reserve requirements may also involve the foreign exchange market, and the net foreign assets of the bank. Banks may compete for cash at a time of restrictive monetary policy by selling foreign currency assets and converting the proceeds into Canadian dollars. If the sale of funds is to a participant in the foreign exchange market other than the exchange fund, the bank selling the foreign dollars will gain at the expense of the bank in which the purchaser of the foreign dollars has an account. Balanced against this situation must also be the requirement to maintain a certain portion of foreign currency assets to meet any sudden reduction in foreign currency liabilities. Another qualifying aspect concerns the relative interest rates involved. The reduction in net foreign assets will be greater when the rate on the foreign liquid assets is low relative to Canadian rates.

3. Priority Investments

There is no established priority for investments. During 1974, the Bank of Canada had the following investment assets:

	Amount (thousands)
Treasury bills of Canada	$1, 590, 311
Other securities issued by Canada, maturing within 3 years	2, 528, 675
Other securities issued by Canada, not maturing within 3 years	2, 859, 628
Debentures issued by Industrial Development Bank	891, 960
Securities issued by the United Kingdom and the United States of America	570, 039
Other securities	2, 633
Total investments	8, 443, 246

The investments of the chartered banks has been approximately 45 percent in Canada direct and guaranteed bonds; 35 percent Canada treasury bills; and 20 percent provincial and municipal bonds and corporate bonds and securities.

4. Credit Ceilings

The credit ceiling is influenced by the actions of the Central Bank, the Bank of Canada, and by the responses of the chartered banks to these actions. The Bank of Canada has used what is termed "moral suasion" to encourage chartered banks not to increase inflation either by curtailing credit to their resident customers or refusing to finance large transfers of funds from Canadian subsidiaries to the foreign parent firm.

5. Loan Restrictions

There are no restrictions placed on the persons or classes of persons who may borrow bank funds. The Bank of Canada must keep the public informed at all times of the minimum rate being used for loans and advances.

6. Interest Rate Limits

There are no interest rate limits. The interest rates that are applied by the various institutions do not distinguish between foreign and domestic clients.

7. Exchange Controls

No exchange control requirements are imposed on capital receipts or payments by residents or non-residents. The Minister of Finances and the Bank of Canada have asked Canadian borrowers to carefully explore the potentialities of the Canadian market before offering securities for sale abroad.

The Bank of Canada may buy and sell in the open market, inside or outside Canada, with or without the endorsement of a chartered bank. There are certain limitations on this power. The maturity of trade acceptances, bankers' acceptances, bankers' drafts and bills of exchange cannot exceed 90 days from the date of acquisition by the Bank. The maturity date for short-term securities of the Bank of England cannot be more than 6 months from the date the Bank acquires the security. If the Bank acquires any bills of exchange and promisory notes endorsed by a chartered bank and issued in connection with the production and sale of goods, the maturity date must be within 90 days of their acquisition. The maturity date is 180 days for those bills of exchange endorsed by chartered banks and issued in connection with the production or marketing of products of agriculture, forestry, mines and quarries, and the sea, lakes and rivers. The Bank of Canada may also buy and sell treasury bills or obligations of the United States.

The basic foreign exchange market is carried on through the chartered banks and the Bank of Canada. The brokers in Montreal and Toronto, where the chartered banks have their main offices, are appointed by the Canadian Bankers' Association. The foreign exchange market has a floating rate according to the supply and demand.

The Exchange Fund Account, with assets owned by the Bank of Canada and the Canadian government, control the movements of the exchange rate by either buying or selling Canadian dollars according to the state of the market. The fund has been primarily concerned with stabilizing the rate between the American and Canadian dollars. The ebb and flow of foreign exchange stabilization operations influence the cash position of the government and the credit conditions of the country.

8. Central Bank Credit

The Bank of Canada is the fiscal agent for the government with standard powers to grant advances, deal in gold and foreign exchange, etc. Charter banks may borrow from the Bank of Canada in order to increase their reserves. The rate of interest charged by the central banks is usually higher than current short term rates of interest. This means that banks will usually get additional cash by liquidating day-to-day loans or treasury bills rather than borrow from the Bank of Canada. A second advance within a month or an advance in excess of the amount specified will require an even higher rate. The change in these rates is often taken as a shift in monetary policy that will affect the market fluctuations of all other rates.

9. Bank Examination

The chartered banks of Canada are inspected by the Inspector of Banks and his staff at least once a year, and the results of this inspection and inquiry are given to the Minister of Finance. The Minister shall also require that the banks make a monthly report on the prescribed form of all the information necessary to make a determination about the amount of reserves held the previous month. In addition, the Minister may designate the form prescribed for reporting the bank's assets and liabilities that are valued or payable in foreign currencies. The banks must also send in an annual report known as Schedule Q at the end of each financial year.

Other annual reports showing the return of loans, deposit liabilities, and the names of shareholders, including the total number of shares held by shareholders, with recorded addresses outside Canada and those holding shares with a par value of more than $5,000 whose recorded address is inside Canada but is known by the bank to be residing outside Canada, must be sent to the Minister and to the Bank of Canada. The Minister may ask for additional reports if he so desires on other subjects connected with banking. These reports are also subject to review by the Inspector. Canada does not have any foreign banks to inspect.

10. Cartel Restrictions

The Bank Act was partly the result of a policy which wanted to foster competition among banks. The interest ceiling was removed, inter-bank agreements regarding charges and rates were prohibited, and intercorporate links between banks and other institutions were restricted.

Uniform practices on rates and charges have developed through the Canadian Bankers' Association, which has been granted authority to operate clearing house arrangements. The banks in practice, have been exempt from the anti-monopoly laws of the country, and unlike many other sectors of the economy, all direct foreign competition in banking has been indirectly excluded by law.

11. Evenhandedness Application of the Regulations

Prior to the enactment of the Banking Act, the Royal Commission on Banking and Finance had recommended certain actions that were not carried out, that would have provided a more even distribution of control, namely:

a. The act should define the business of banking and bring all companies engaged in banking under the act, requiring reserve deposits, etc. This, however, would have involved an intrusion into the area of Federal-provincial relations, since many of the deposit taking organizations are chartered by provincial governments.

b. Foreign banks should be allowed to establish agencies in Canada and engage in all types of banking activities except the acceptance of deposits. This would have made the position of foreign banks in Canada comparable with that of foreign banks in New York City. The fact is that with 180 foreign financial institutions presently operating in Canada, with assets of $1.8 billion, many see the lack of regulation of this sector as a threat to the continued maintenance of a sound financial system.

c. The existing right of the Canadian Bankers' Association to operate the clearing system should be withdrawn and all deposit-taking institutions offering checking privileges should have access to the Bank of Canada for settling balances. This would have eliminated the present fee required of these institutions for clearing checks and payment orders through one of the chartered banks.

Although these recommendations were not carried out, the government did not decide against them, rather action was just postponed. There will certainly be further discussion on the issues outlined as time nears for the 1977 act revision.

Cayman Islands*

The first bank (Barclays Bank DCO) opened in the Cayman Islands in 1953. It had no competitor until 1964. However, at present there are over 170 licensed banks and trust companies operating on the Islands. The special features of the Companies Law and Trust Law (including guarantee from the Government of freedom from taxation, usually for a period of 20 years) have proved a great attraction to international business and finance. The Colony does not tax individual or corporate income, capital gains or inheritance, and there is no treaty requiring the Cayman Islands Government to furnish information to any other Government.

1. Any Deposit Restrictions

Deposit restrictions on the banks vary according to the type of license issued to it. There are two main classifications of banks and trust companies in the Cayman Islands. The main division is into Class A and Class B licenses.

A Class A license gives the holder the right to carry on a banking and/or trust business, both inside and outside the Colony. A Class B license is subdivided into unrestricted and restricted categories. The unrestricted type entitles one to carry on a banking and/or trust business anywhere outside the Cayman Islands subject to its furnishing an undertaking not to carry on business with the public of the Cayman Islands. A Class B, restricted license gives the holder the right to carry on a banking and/or trust business outside the islands but only

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with specifically named clients of which the Government must be notified at the time of the issuance of the license. The list can be increased later to a limited extent.

Class A license holders are more often branches of major international banks and Class A trust company licensees are usually a subsidiary or affiliate of an international bank, although a small number of private banks and trust companies hold Class A licenses.

The applicant for a license must give a written undertaking that it shall not solicit or receive funds by way of trade or business from persons or companies other than those listed, and that it shall not solicit or receive such funds from the public of these islands. The terms of these undertakings are incorporated as a condition in the license.

2. Reserve Requirements

The licensee must set apart a fully paid up capital, before or at the time it commences business (of at least $200,000) as the Administrator in Council may in his discretion determine. In lieu of setting apart the stated capital, the licensee may choose to give a guarantee for a similar sum under a seal provided by the holding or parent or another company approved by the Administrator.

3. Priority Investments

There are no priority investments stipulated in the banking law.

4. Credit Restrictions

There is no provision relating to credit ceiling. Every bank is expected to carry on its business without detriment to the interests of its depositors or creditors. The Administrator may from time to time require a licensee to rectify any matter in case of need, and on its failure to do so, may revoke the license.

5. Loan Restrictions

There are no lending restrictions.

6. Interest Rate Limits

There are no limitations on interest rates. Banks compete in their interest rates.

7. Exchange Controls

The banks and trust companies law does not provide for any exchange controls. It is unlikely that the exchange controls, if any, could be anything more than minimal. Of all the tax havens around the world, the Cayman Islands has grown most rapidly during the last 12 years. This fact would tend to point to an absence of foreign exchange controls.

8. Central Bank Credit

There is no central bank and nothing like a Federal Reserve System for banks to fall back upon for financial help and there is no insurance on deposits.

9. Bank Examination

The Administrator in Council may call for statements of accounts and obligations from licensees whenever it appears likely that the licensee may become unable to meet its obligations. He may, addition-

ally, ask for audited statements of the licensee's affairs and/or any other information that he may consider appropriate. The Inspectors of Banks and Trust Companies, also a Government Officer, helps the Administrator by constantly supervising all licensed banks and has powers to look into records and account books, etc.

10. Cartel Restrictions

No shares in a company or certificates of deposit or any other securities of such a licensee company can be transferred without the prior approval of the Administrator in Council.

11. Evenhandedness of Application of Regulation Overall

The authorities endeavor to deal with all banks evenhandedly. However, any decisions of the Administrator in Council affecting a bank's license, is subject to judicial scrutiny, by way of appeal within 21 days, by the Grand Court of the Cayman Islands. This ensures fair deal even further.

Chile

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(a) Limits on deposits of resident nationals—domestic currency vs foreign currencies, all banks, domestic banks vs foreign banks

No limits in domestic currency.

(*b*) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic

Subject to regulations by the Central Bank.

(c) Foreign bank access to savings deposits: Not applicable at present.

(*d*) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks

2. Reserve requirements—all banks, foreign vs domestic.

(*a*) Direct reserve requirements—all banks, foreign vs domestic—requirement that deposits be kept with central bank or government agencies

All banks must keep a legal reserve fund equivalent to 25 percent of paid in capital. Also, a deposit (*encaje*) in the Central Bank is needed.

(*b*) "Special deposits"

A deposit as guaranty of compliance of the General Banking Law is required.

(*c*) Secondary reserves

Reserves in excess of 50 percent of paid in capital are called "additional reserve."

(*d*) Liquidity ratios

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs domestic

All banks have to purchase some shares of the Central Bank. Banks may invest in housing in order to comply with general housing legislation.

4. Credit ceilings—either re domestic inflation or balance of payments: Yes.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs domestic

There are limits (a percentage of capital and reserves) in the amount of the loans that may be granted to one individual, that varies according to the classes of borrowers.

6. Interest rate limits—all banks, foreign vs domestic

Yes, according to regulations of the Central Bank.

7. Exchange controls—all banks, foreign vs domestic

Yes, according to regulations of the Central Bank.

8. Central bank credit—access and cost—all banks, foreign vs domestic.

If there is nominal access, is there nevertheless discrimination?

According to General Banking Law, all banks have equal access. For present situation, *see* footnote 1.

9. Bank examination—all banks, foreign vs domestic.

What is the interval and nature of examinations?

All banks are inspected by the Superintendency of Banks, even the "representation offices" of foreign banks. Examinations cover legality of the operations and financial matters. Financial reports must be issued four times a year and inspections may be made at any time.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs little banks; foreign vs domestic

None applicable to present situation. *See* footnote 1.

11. Evenhandedness of application of regulation overall.

See footnote 1.

COLOMBIA

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(*a*) Limits on deposits of resident nationals—domestic currency vs foreign currencies, all banks, domestic banks vs foreign banks.

Cannot request deposit from nationals.

(*b*) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

None.

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[1] The General Banking Law of Chile (decree-with-force-of-law 260, Mar. 30, 1960) accepts foreign banks operating in Chile as commercial banks; in fact, several foreign banks operated that way until 1971. From 1971 to September 1973, the Chilean Government, without repealing the law concerning private banks, purchased directly the majority of the shares of all domestic banks except one, and all the shares of the foreign commercial banks. Since then, all these banks have been administered by the board of directors appointed by government agencies and in some cases by the Superintendency of Banks itself. By decree-law 231 of December 24, 1973, it was established that from that date up until December 31, 1974, no new commercial bank could be establ.shed in Chile. It also stated that "since that date no branch or agency of foreign banks can be established with the exception of those which are state-owned in their country of origin." "The representations (*representaciones*) of foreign banks can effect the operations specifically or generically permitted by the Superintendency of Banks, according to article 35 of the General Banking Law, with the sole limitation that they are not allowed to receive deposits or give loans in national currency."

Through decree-law 600 of July 13, 1974, the Foreign Investment Statute, Chile liberalized its legislation concerning foreign investment, but this statue does not refer specifically to banking.

In 1975 the Chilean Government announced, as a matter of policy, that some state-owned commercial banks would again become private banks, in national hands. According to the information available, no new measures have been taken concerning foreign banks.

Chile is also a member of the Andean Pact (The Cartagena Agreement).

The answers contained in this questionnaire must be understood against this background.

(*c*) Foreign bank access to savings deposits.

None.

(*d*) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs domestic.

All banks must have reserves. 20 percent on savings deposits; 10 percent on time deposits.

(*a*) Direct reserve requirements—all banks, foreign vs domestic—requirement that deposits be kept with central bank or government agencies

Reserves to be kept with *Banco de la República.*

(*b*) "Special deposits"—Special reserve requirements are to be met when accepting savings deposits.

(*c*) Secondary reserves.

(*d*) Liquidity ratios—When savings deposits exceed 500,000 *pesos*, the reserve should be 75,000 and thereafter for each $25,000, 1 *peso* for each 10 *pesos.*

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs domestic.

All banks are subject to priority investments as regulated by law (article 118, law 43 of 1923). Basically, they are mortgage bonds issued by the Central Mortgage Bank, agricultural bonds and bonds of the internal debt.

4. Credit ceilings—either re domestic inflation or balance of payments.

5. Loan restrictions reclasses of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs domestic.

Loans are classified in accordance with the destination to be given to the loaned money. They are subject either to a mortgage or a pledge. Loaned money must be invested in the economic sector referred to in the loan application. Foreign banks cannot grant loans to nationals.

6. Interest rate limits—all banks, foreign vs domestic.

All banks subject to the provisions of article 5 of law 16 of 1936. On term deposits, the interest may go up to 23 percent.

7. Exchange controls—all banks, foreign vs domestic.

All banks subject to the provisions of chapter II of decree-law 444 of Mar. 22, 1967.

8. Central bank credit—access and cost—all banks, foreign vs domestic. If there is nominal access, is there nevertheless discrimination?

May cost between 12.25 percent to 22 percent difference between the rates paid and collected from one to four percent.

9. Bank examination—all banks, foreign vs domestic. What is the interval and nature of examinations?

All banks are to be examined by the Banking Superintendent at least once a year.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs little banks; foreign vs domestic.

11. Evenhandedness of application of regulation overall.

Foreign banks are subject to restrictions adopted by the Cartagena Agreement of 1969.

Federal Republic of Germany*

1. *Deposit Restrictions*

Banking involving depository functions is generally subject to official approval in the Federal Republic of Germany. Such approval may be refused not only because of insufficient funds or unreliability or incompetence of the managers—a provision which affects both foreign and domestic banks—but also because of the absence of any economic necessity. Section 53, paragraph 2, clause 5, of the Banking Law of July 10, 1961, as amended reads:

> Each branch office of a foreign business enterprise must have a permit to undertake business operations. The permit may be refused when its granting is not justified upon consideration of overall economic needs.

The constitutionality of this provision has been stressed by German legal writers on the ground that the prohibition to examine economic necessity in the case of admission of new banking enterprises applies only to domestic credit institutions, but in no way to foreign ones. Furthermore, a too extensive opening of branches by foreign banks may disturb the general pattern of German banking. However, the requirement of economic necessity may be omitted by concluding an international treaty. This has been the case with respect to the States that are members of the European Economic Community.

In this connection it should be mentioned that foreign legal entities require a general permit to do business in the Federal Republic of Germany. To open a banking business branch in Germany, a special permit, which replaces the above-mentioned general permit, is required for foreign banking enterprises. Also the entire banking business of each German branch is subject to regulatory provisions of the above-mentioned Banking Law of 1961 (Gesetz über das Kreditwesen, official abbreviation KWG). Among them is the provision that at least one person domiciled in the area where the Basic Law of Germany has effect must be responsible for the internal management and representation of each branch, and upon him must fall the responsibilities of a representative under the Banking Law. Each branch office must keep separate books in accordance with the provisions of the Commercial Code on ledgers, which are subject to examination by German certified [public] accountants. Finally, for litigation relating to the business of a branch office, the statutory competence of the German local courts may not be excluded by agreement.

With respect to capital inflow and related matters, the International Monetary Fund's *Twenty-Sixth Annual Report on Exchange Restrictions 1975* on page 198 states:

> Certain types of capital inflows are restricted. The prior approval of the Bundesbank is required for sales to nonresidents of all domestic money market paper and of fixed-interest securities of German issuers with less than four years remaining to maturity, as well as for *en pension* transactions with nonresidents involving fixed-interest securities of German issuers where such securities are eligible for delivery in less than four years; approval is not normally granted. Nonresidents' direct investment or personal use, and purchases of German or foreign equities do not require approval. Interest payable to nonresident holders of fixed-interest securities of German issuers is subject to a withholding tax of 25 percent ("coupon tax").

*Prepared by Dr. Armins Rusis, Senior Legal Specialist, European Law Division, Law Library, Library of Congress, October 1975.

There are also investment restrictions for foreigners to be observed by banks both domestic and foreign banks. Nonresidents are required to obtain the prior approval of the German Federal Bank should they wish to purchase from a resident party domestic treasury bills, noninterest-bearing treasury bonds, and certain other instruments denominated in German marks. The same requirement applies if a nonresident wishes to acquire a claim against a resident party from another resident party, subject, however, to a basic allowance of DM 100,000 per calendar year. Furthermore, German banks are precluded from paying interest on bank accounts maintained by nonresidents, with the sole exception of saving accounts of individuals up to the amount of DM 50,000. These are the only restrictions on the importation or repatriation of capital. All earnings from German investments may be transferred abroad. However, the Federal Bank must be informed for statistical purposes, according to Juergen Killius in *Business Operations in West Germany*, A–1 to A–2 (1975).

The same survey of business operations in the Federal Republic of Germany includes the following information on two recent cash deposit regulations affecting domestic and foreign banks alike:

> As of March 1, 1972, an ordinance was issued by the Federal Ministry of Economics Finance pursuant to Section 6A of the Foreign Trade Law [of April 28, 1961] which requires resident individuals, corporations and commercial partnerships to make a cash deposit of a specified percentage of money borrowed abroad with the German Federal Bank. At present, a deposit rate of 20 percent is applicable. The amount of loans is computed each month (base month) on the average daily loans, and there is a basic allowance for the first DM 100,000. During the second month following the base month, the cash deposit has to be maintained in a non-interest bearing special account with the German Federal Bank. The amounts borrowed abroad and the amounts to be deposited have to be reported to the German Federal Bank no later than on the 20th day of the calendar month following the base month.
>
> It is the purpose of these cash deposit requirements to supplement the minimum reserve regulations applicable to banks and to provide the German Federal Bank with a means of controlling the influx of foreign funds. For these reasons, the ordinance provides for an exemption of borrowing loans for the purpose of investing abroad, organizing foreign companies, establishing branch offices or permanent establishments abroad, or for the acquisition of foreign enterprises.
>
> Since the term "resident" for the purposes of Foreign Trade Law includes German branch offices and permanent establishments of foreign enterprises, and since such outlets are treated like independent entities in relation to their head offices or other branch offices, the ordinance has a significant impact on the financial arrangements between them. The German Federal Bank summarized its interpretations of the ordinance in a Decree of May 29, 1974, which discusses, *inter alia*, the treatment of the assignment of claims against resident parties to a nonresident party, contributions by nonresident parties to their German branch offices, the contribution of capital to German corporations by nonresident shareholders, and the treatment of roll-over facilities. . . .

No provision could be found which would not allow foreign banks to accept savings deposits. Inasmuch as, under the Foreign Trade Law and the regulations implementing its provisions, all transactions in principle are permitted except those which are specifically prohibited, and inasmuch as German branch offices and permanent establishments of foreign banks are included in the category of "resident" enterprises, there exists no discrimination with respect to handling savings deposits.

Both domestic and foreign banks must refrain from misleading advertising and unlawful soliciting of accounts. Section 23 paragraph 2 provides:

> In order to counteract abuses in the soliciting of business by credit institutions, the Federal Banking Supervisory Office may prohibit certain kinds of solicitation.

2. Reserve Requirements

The Deutsche Bundesbank requires both domestic and foreign banks to keep minimum reserves and can vary the amount of these. The Bundesbank can raise its discount rate and by doing so make it more expensive for the banks to obtain funds from it by rediscounting the trade or commercial bills. The Bundesbank can also alter the credit lines which it grants to the other banks for that purpose and can conduct open-market operations in short and medium term Government paper. In the last resort, the Bundesbank can restrict credit.

The provisions on the minimum reserve policy of the Deutsche Bundesbank are included in the Law Concerning the Deutsche Bundesbank of July 26, 1957, as amended on July 22, 1969. The pertinent section reads as follows:

Sec. 16. Minimum reserve policy. (1) For the purpose of influencing the circulation of money and the supply of credit, the Deutsche Bundesbank may require the credit institutions to maintain with it, on giro account, balances (minimum reserve) equal to a specified percentage of their liabilities arising from sight, time and savings deposits and from short- and medium-term borrowings, with the exception of liabilities to other credit institutions required to maintain minimum reserves. The rates fixed by the bank shall not exceed thirty percent for sight liabilities, twenty percent for time liabilities, and ten percent for savings deposits. Within these limits the Bank may fix the rates at various levels in accordance with general principles, in particular for individual groups of institutions, and may exclude certain liabilities from the computation. In the case of a credit institution as defined in Section 53 of the Banking Law, a net liability on intercompany account shall likewise be deemed to be a liability in respect of sight deposits within the meaning of sentence 1.

(2) The average monthly balance of a credit institution with the Deutsche Bundesbank (actual reserve) must not be less than the percentages, fixed in accordance with paragraph (1), of the monthly average of that institution's liabilities subject to the reserve requirement (required reserve). The Bank shall issue detailed regulations concerning the computation and establishment of the actual reserve and of the required reserve.

(3) On the amount by which the actual reserve falls short of the required reserve the Deutsche Bundesbank may charge a special interest rate of up to three percent above the current rate for advances against securities. The special interest rate will not be charged where the shortfall was due to unforeseeable circumstances and thus unavoidable, or where the credit institution concerned has gone into liquidation. The Deutsche Bundesbank shall report any substantial or repeated shortfall to the Bank Supervisory Authority.

(4) Agricultural credit cooperatives which are members of a regional central institution and maintain no giro account with the Deutsche Bundesbank may keep their minimum reserves with their central institution; the latter shall maintain balances in an equal amount at the Deutsche Bundesbank.

(5) The minimum reserves to be maintained under this Law shall be counted toward the liquidity reserves to be maintained under other laws.

With respect to "special deposits," secondary reserves, and liquidity ratios, discrimination against foreign banks apparently does not occur. The main provision on liquidity is contained in Section 11 of the Banking Law which reads as follows:

Sec. 11. Liquidity. Credit institutions shall invest their funds in such a way as to safeguard adequate solvency at all times. In agreement with the Deutsche Bundesbank, the Federal Banking Supervisory Office shall establish principles according to which it shall judge, as a rule, whether the liquidity of credit institution is adequate; the associations representing the credit institutions shall first be heard. The principles shall be published in the *Bundesanzeiger*.

At the present time the liquidity of credit institutions, including foreign banks, is governed by "Notice of the Deutsche Bundesbank No. 1/69 on the Principles Governing the Capital Resources and

Liquidity of Credit Institutions." It was issued by the Federal Banking Supervisory Office on January 20, 1969, and entered into force on January 1, 1969.

Principle I provides that a credit institution's credit to business enterprises, individuals, and other credit institutions, plus its participation, less the global value adjustment, shall not exceed 18 times its pledged capital resources. Credit shall be understood to include short, medium, and long term credit. However, there shall be included only 50 percent of long term credit that serves as cover for debt certificates, that is, granted against a real estate lien in connection with mortgage lending or against equivalent liens on ships, or that is fully guaranteed by domestic corporate entities or public law institutions.

Principle II provides *inter alia* that a credit institution's investments in long term credit, syndicate holdings, participation, securities not quoted on the stock exchange, and in land and buildings shall not exceed its long term financial resources. Among others, these are considered long term financial resources: capital resources; the credit institution's own bonds in circulation; bonds sold in advance of issue; long term loans acquired; 60 percent of the savings deposits; and 10 percent of the sight and time deposits of nonbanks.

Principle III provides that a credit institution's debtors, its bills drawn on borrowers, dividend-bearing stock exchange securities, and "other assets" shall not exceed the total of thereafter enumerated resources for each of which a different percentage is specified.

With respect to the liquidity ratios, the following survey of the building ratios for commercial banks taken from a comparative work on banking appears to be, on the whole, correct at the present time, though these ratios may not apply to other groups of credit institutions:

Guiding Ratio I: The total of the short-term and medium-term lendings shall not exceed 18 times the liable funds.[1]

Guiding Ratio II: The debtors[2] shall not exceed 60 percent of liable funds and deposits.

Guiding Ratio III: The liquid resources[3] shall not be less than 20 percent of the borrowed funds.[4]

3. *Priority investments*

No provision was found requiring banks to hold specified amounts or percentages of assets in government securities. However, investments in government securities may be included as part of reserves. Likewise, supervisory authorities may permit government-guaranteed issues to be included in meeting capital requirements. This type of regulations, however, is not applied to discriminate against foreign banks.

4. *Credit ceilings*

No indication was found that banks would be held to limit extensions of credit to a specified percentage of the credit extended by the respective banks at some earlier date. However, if credit ceilings would be practiced they would be applicable both to domestic and foreign banks

[1] The liable funds are the capital and reserves, as defined in the Law on the Credit system, plus the global value adjustment permitted under the tax laws.

[2] The debtors comprise credits in current account and acceptance credits.

[3] The liquid funds comprise cash holdings, balances at the Deutsche Bundesbank and Postal Cheque Offices, cheques and bills, German and certain foreign Treasury bills and Treasury bonds.

[4] The borrowed funds comprise deposits, moneys and loans taken, the bank's acceptances and promissory notes in circulation.

since there are no rules singling out domestic banks for privileged treatment.

5. Loan restrictions

The following information is from the First National City Bank of New York, *Foreign Information Service. Annual Summary of Exchange and Foreign Trade Regulations as of January 1, 1973:*

> *Loans to German residents.* Nonresidents may grant loans in Deutsche marks or any foreign currency. Residents may provide security, in particular, guarantees, pledges, security assignments or transfers, to nonresidents.
>
> To help ward off further foreign currency inflows, the German government announced in March 1972, retroactive to January 1, a cash deposit requirement against foreign borrowings by corporations in Germany. Effective July 1, 1972, requirement was raised to 50 percent and effective January 1, 1973 it applies to borrowings in excess of DM50,000. Borrowings for export transactions are exempt. The funds set aside under this requirement are held in the form of noninterest-bearing cash deposits at the central bank.
>
> *Loans to nonresidents.* Residents may grant loans to non-residents in Deutsche marks or foreign currencies without restriction as to duration or amount and may request nonresidents to provide security.

6. Interest rate limits

Interest rate limits are determined by the Deutsche Bundesbank. In 1973, for example it raised the discount rate to 5 percent in January, to 6 percent in May, and to 7 percent in June.

7. Exchange controls

The following is a survey of exchange controls and currency transferrability taken from: Franz Pick, *1974 Pick's Currency Yearbook* 212 (1975).

> *Currency transferrability*
>
> *Residents* are considered to be physical persons and legal entities domiciled or normally resident in West Germany. They can import and export unlimited amounts of German banknotes, maintain bank accounts abroad, and obtain any amount of foreign currency for travel abroad. Residents can own, deal in, and import and export gold. Domestic sales of gold and gold coins that are no longer legal tender are subject to 11 precent value-added tax, or 5.5 percent where assessment base is more than 250 percent of fine gold value. Gold coins that are still legal tender are exempt from the value-added tax. Commercial transfers to and investments in all currency areas are without limitation. Investments in foreign countries can be made freely. Foreign securities may be purchased, traded, exported and imported without restriction. Some specified goods need import licenses. Exports of a few items require licenses; export of other is free.
>
> *Nonresidents* can freely import and export national banknotes. Interest payments on nonresident savings accounts in excess of DM50,000 are banned, while interest payments on other nonresident deposits require prior authorization. Nonresidents cannot purchase fixed-interest German securities of less than four years maturity or other money market paper without prior approval. The purchase by nonresidents of monetary claims on German residents exceeding DM100,000 is banned. Other German securities—including shares—can be freely purchased. There are no investment restrictions on real estate purchases for personal use. Earnings of foreign capital in Germany are freely transferable abroad, as is income from German securities, except that debentures are subject to a 25 percent withholding tax on interest. Minor regulations exist for some transactions connected with motion pictures, insurance and transportation.

8. Central Bank Credit

Section 15 of the Deutsche Bundesbank Law of July 26, 1957, authorizes the Deutsche Bundesbank to implement the credit and monetary policy. It reads:

Sec. 15. Discount, credit, and open market policies—For the purpose of influencing the circulation of money and the supply of credit, the Deutsche Bundesbank shall from time to time fix the interest and discount rates to be applied to its transactions and shall determine the principles governing its credit and open market operations.

Whether the Deutsche Bundesbank discriminates against foreign banks doing business in the Federal Republlc of Germany in terms of access to its services and the cost of discount is not known here. No provision was found in the available legal sources prohibiting United States banks from having direct access to the Deutsche Bundesbank.

9. Bank Examination

All banks, foreign and domestic, must report their activities and submit to periodical examinations by supervisory examining agencies. A survey of German banking law describes the pertinent provisions and procedures as follows:

Credit institutions are required to submit monthly returns to the Bundesbank without delay. If monthly balance sheet statistics are prepared in accordance with Art. 18 of the Law Concerning the Deutsche Bundesbank, these are deemed to meet the requirement of the first sentence of Art. 25(1) of the Banking Law. The Bundesbank shall transmit these monthly returns to the Banking Supervisory Office with its comments, unless the Office waives this requirement (Art. 25(2)).

Credit institutions shall submit to the Banking Supervisory Office and the Bundesbank without delay their approved annual statement of accounts, comprising the annual balance sheet and the profit and loss account and their annual report, if any (Art. 26).

Art. 26a provides that credit institutions may, in their balance sheets, assess claims and securities at lower values than those prescribed or admissible under Art. 155 of the Law on Shares of September 6, 1965, if such assessment is reasonably necessary to allow for the special risks involved in carrying on credit business.

Before being approved, a credit institution's annual statement of accounts, including the annual report insofar as it explains the annual statement of accounts, shall be audited by one or more auditors (Art. 27(1)). Art. 28 sets forth rules governing the appointment of auditors and requires the credit institution to notify the Banking Supervisory Office of the auditor which it has selected. The Office may, within a month after receipt of such notification, require the appointment of another auditor if this is necessary for the purpose of attaining the object of the audit. Upon request by the Banking Supervisory Office, the auditor shall explain the audit report to that Office and to the Bundesbank and shall give information regarding his findings in the course of the auditing (Art. 29(1)).

Credit institutions engaged in the securities business or in the safe-custody business (see Art. 1(1), items 4 and 5) shall normally be examined once a year by so-called deposit examiners appointed by the Banking Supervisory Office; the right to appoint such examiners may in individual cases be conferred on the Bundesbank (Art. 30).

Under Art. 31 of the Law, the Federal Minister of Economics may, after hearing the Bundesbank, exempt all or certain groups of credit institutions from specified provisions of the Law and may delegate this power to the Banking Supervisory Office; Art. 31(2) gives to the Office the power to grant certain exemptions.

10. Cartel Restrictions

Under German law, competition is protected in two directions—against unfair practices and against restrictive practices. The provisions on restrictive practices guarantee freedom of competition. The Law Against Restraints of Competition (Cartel Law) of July 27, 1957, as amended, is aimed at securing freedom of competition and preventing economic power from impeding competition. This aim is stated as follows in Section 1 of the Law:

Agreements made by enterprises or associations of enterprises for a common purpose and decisions of associations or enterprises are ineffective insofar as they are likely to influence, by restraining competition, production or market conditions with respect to trade in goods or commercial services. This shall not apply where this law provides otherwise.

The Cartel Law applies to domestic and foreign banks alike, and the Federal Cartel Office keeps guard over any violation of the law.

11. Evenhandedness of Application of Regulation Overall

No information on this subject could be located in the Library of Congress by this reporter.

FRANCE*

The banking industry in France is regulated by the Laws of June 13 and 14, 1941; the Law of December 2, 1945; and two Decrees of May 25, 1946, as amended. Among new legislative acts concerning banking should be mentioned Law No. 75–601 of July 10, 1975, Modifying the Conditions Concerning the Requirements of Nationality for the Exercise of the Banking Profession and Certain Financial Professions, and Relating to the Functioning of Foreign Banks. Provisions concerning banking activities reserved to French nationals were amended in the sense that nationals of the European Economic Community were put on an equal basis with French nationals. In addition, Article 15 of the Law of June 13, 1941, was amended as follows: "The provisions of the present text shall apply to the Foreign banks." By this amendment, a special register for foreign banks was abolished, and now foreign banks are subject to the same rules concerning registration and functioning as the national banks. The previous provisions of Article 15 on the criteria of the nationality of banks were also abolished.

A committee report sent to the French National Assembly at the time of the voting on the 1975 Law stated:

The extent of this text [of the Law of July 10, 1975] herein submitted is relatively limited. First, the proposed legislative modification is due to a decision made by the Council of Ministers of the European Economic Community, which France is required to apply; and the governmental project represents to a certain degree a codification of the European legislation inside our legislative structure.

Second, the statutory power which permits the Government to regulate banking activities for reasons of political economy is in no way modified, and the discretionary power which it exercises remains complete in this respect.

Finally, internationalization of banking operations in the Western World is henceforth an accepted fact, and the evolution which has been recognized over the last 14 years is not expected to be modified by the adoption of this legislative bill. Just as French banks have operated in foreign countries, most of the important foreign banks henceforth may exercise their activities in France, either as agencies or as subsidiaries, without it being necessary to distinguish particularly between those countries of the Common Market and those attached to states not part of the European Economic Community.

. . .

The new proposed legislation abandons all criteria of nationality so that all banks having their head offices [registered offices] located outside the national territory are considered as foreign banks, [with] banks of states [that are] members of the European Economic Community naturally benefiting from particular prerogatives.

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*Prepared by Timothy Cayton, Legal Specialist, European Law Division, Law Library, Library of Congress, October 1975.

Those foreign banks established in France will no longer be entered on a special list but will be included on one single list with all [banking] establishments exercising their activities in France.

Under French law, private banks, aside from those having a special status, are classified as deposit banks (*banques de depôt*), commercial banks (*banques d'affaires*), or banks of medium and long term credit (*banques de crédit à moyen et long term*). Each category is subject to different provisions of the law prescribing minimum capital requirements, limitations on investments, and, above all, the sources of bank funds.

In the application for entrance in the register, as required by law, each applicant must indicate in which class of banks mentioned above the bank should be listed. In addition to meeting procedural requirements, a prospective entry must be warranted "by general or local economic needs" (Art. 10 of the Law of June 13, 1941).

The Laws of 1941 created three regulatory organs, each having specifically enumerated powers over banking operations. The National Council of Credits (Conseil national du Crédit) establishes general monetary and financial policies, banking guidelines, and credit restrictions which are executed through the Bank of France. The Council has regulatory power of a discretionary nature affecting individual banks and banking institutions. All decisions of an individual nature, however, may be appealed to the Commission of Bank Control (Commission de Contrôle des Banques), which is also responsible for surveying and monitoring the accounts and books of established banks. Decisions of the Commission are final, except those of a general nature which are susceptible to appeal to the Council of State, the highest administrative tribunal in the land. The Professional Association of Bankers (Association professionelle des Banques), in which every banker is required to take part, assures liaison between the superior governing organs and the individual banks, acts as a consultative assembly, and takes disciplinary action against member banks. Decisons of that body are subject to appeal before the Commission. The decisions of these regulatory organs are susceptible to constant change, since they reflect the economic environment and the monetary situation.

1. Deposit Restrictions

(a) Limits on Deposits of Resident Nationals

There are no restrictions placed on deposit and investment banks concerning funds received from nationals. Medium and long term banks, however, are prohibited from receiving funds from the public at large through deposits for a term of less than 2 years, except by special authorization by the Commission.

(b) Limits on Inflows of Funds from Abroad

Restrictions on foreign currency deposits or deposits by nonresident nationals are indirect as well as direct and operate primarily through exchange rates, convertibility, and foreign exchange regulations.

A nonresident account in francs may be freely opened by an authorized bank for nonresidents, including French nationals (other than French officials) who have been residing abroad for at least two years. All overdrafts and advances on nonresident-held franc accounts are subject to general or specific permission.

For a discussion of these points and of any limits on the flow of funds from abroad, *see* the discussion below entitled "Exchange Controls."

(*c*) *Foreign Bank Access to Savings Deposits*

No limitations concerning access to savings deposits by foreign banks could be located, except those which are established by laws applicable to a certain group of banks, national as well as foreign.

(*d*) *Codes of Fair Competition*

Banking institutions are legally established as general partnership, limited or stock partnerships, or corporations and are required to follow the provisions of laws concerning business competition. The following shall be considered as unfair competition: illegal agreements, implied or express, or consolidation of any form and for any purpose whatsoever, which has an objective, or may have as an effect, the restraint, restriction, or falsification of the operation of free competition.

2. Reserve Requirements

The mandatory reserves system was established by Decree No. 67–27 of January 9, 1967, as amended by Decree No. 71–145 of 1971. This system requires banks to maintain interest-free deposits or, eventually, other forms of liquid assets with the Bank of France.

The National Council of Credits establishes the elements to be taken into consideration in the calculation of reserves for registered banks. The Bank of France establishes the rate of these reserves within the limits prescribed by the order of the Council. The rates of the reserves may differ according to the nature, amount, and variation of the elements of liabilities to which they apply. The banks which have not supplied the prescribed reserves must pay interest to the Bank of France on overdue payments at the rate established by the National Council of Credits. The Commission of Bank Control is in charge of controlling the implementation of the provisions of that Decree.

According to the opinion of Professor Jean-Louis Rives-Lange, banks are obliged to establish mandatory reserves not only on the basis of the deposits which they have collected, but also on the credit distributed to the economy:

> The reserves against deposits constitute a minimum amount calculated, taking into consideration the registered current liabilities in the name of enterprises and private persons (deposits on current accounts and for a fixed period, cash vouchers, savings accounts (with the exception of accounts on housing savings)), non-banking enterprises . . . and finally of banks or banking agencies established in foreign countries. The deposits or cash vouchers for 3 or more years are not to be take into account. . . .
>
> The reserves against credits must have a minimum amount determined, taking into consideration the distributed financial assistance by banks and financial establishments in the form either of credits of any kind (with the exception of endorsements and sureties) granted to the beneficiaries who themselves are not subject to establishing reserves or credit leasing operations

Liquidity Ratios. In order to guarantee a bank's solvency and to maintain its liquidity, thus protecting deposits, all banks are required to respect the following maximum and minimum percentage relationships established by the Commission of Bank Control:

1. between their liquid and convertible assets and their short term credits (liquidity coefficient);

2. between investments in immovables, commercial participation, and medium and long term assets, convertible or not, on the one hand, and the total of their capital, capital plus reserves, medium and long term commitments, and certain demand assets (immobilization ratio), on the other;

3. between the bank's own resources and the total of commitments to third parties, included or not in the balance (solvency ratio); and

4. between the total of the bank's own resources and the total of credit granted to one physical or legal entity, with the exclusion of credit guaranteed by the State or by public or semipublic institutions.

3. Priority Investments

In France a program requiring banks to maintain major public investment in treasury notes as a convertible counterpart to their deposits was begun in September 1948; but this program, which required a minimum purchase of treasury notes by all banks from the Bank of France was finally abolished by the 1967 reform laws.

4. Credit Ceilings

Different mechanisms have been conceived for limiting the total amount of credit granted, and several of these laws have been effectively institutionalized. For example, the monitoring of the rate of discount by the Bank of France is a very traditional control. The liquidity ratio, as mentioned above, limits the total credit in relation to the convertible resources.

In the past, the rediscount ceiling determined the rediscount operations that each bank could conduct with the Bank of France as a function of the bank's financial situation. The Bank of France, however, informed the banks in a letter dated December 20, 1971, that these rediscount ceilings were abolished. In so doing, it only made official what was already a recognizable fact. The desired control by the Bank of France, nevertheless, was maintained through the reform of the reserve system of that year. (*See* "Reserve Requirements" above.)

5. Loan Restrictions

(a) Deposit Banks

Since the lifting of the prohibition to receive deposits for a term longer than 2 years, the true limitations on loans by deposit banks have been those the law places on their financial participation in commercial and financial enterprises. These limitations are as follows:

(1) deposit banks may not hold a financial interest beyond 20% of the capital in enterprises other than banks, financial institutions, or companies necessary to their operation and in charge of the management of real estate or research or technical services attached to the banking profession;

(2) the total of the above financial participation, including underwriting guarantees for the creation of stock or commercial shares, may not exceed the total of their proper resources (capital plus reserves); and

(3) any use of demand deposits or deposits for a term of less than 2 years in real estate is prohibited.

(b) Commercial Banks

Commercial banks grant and extend credit, take control, and manage investments in commercial ventures. These banks are able to invest in such operations without limitation except for that restricting the investment of funds received in the form of demand deposits or deposits made for a period of less than 2 years. Their investments, however, must receive approval from the Commissioner of the Government. These banks, furthermore, may use their resources in credit operations. This latter qualification is simply a legal technicality provided by the law for distinguishing a commercial bank from a holding company.

(c) Medium and Long Term Banks

Medium and long term banks are those which engage in credit operations for terms of 2 or more years. These banks are subjected to the same limitations established for deposit banks, i.e., they can use only their own resources or funds deposited with them for more than 2 years. Because such long term deposits are rare, these banks call for public financing by issuing stock, commercial shares, or bonds and obligations.

6. Interest Rates

Interest rates are determined by agreements between the parties or by implicit reference to the general conditions applied by the banks. The Law of December 28, 1966, on Usury, Lending, and Certain Operations on Canvassing and Advertising established the interest ceilings which are applicable to banks. In general, banks respect established limits.

The provisions of the law concerning interest payable on capital specify that the rate of interest shall be determined by the National Council of Credits and published at the start of each quarter in the *Journal officiel*, the official law gazette of France.

7. Exchange Controls

For a discussion of this subject, *see* the accompanying materials taken from the International Monetary Fund's *Twenty-Sixth Annual Annual Report on Exchange Restrictions 1975.*

8. Central Credit Bank

The Bank of France according to the Law of July 3, 1973, has the general task of controlling money and credits.

In matters affecting the direction of credit, the Bank of France acts in various ways. It establishes the rate of discount and the ceiling on rediscount, the minimal rates for mandatory reserves, etc. The National Council of Credits establishes general rules and the Bank of France, in many cases, the rules of implementation.

There is no indication of the existence of limitations concerning access or costs of credit to foreign banks by the Bank of France as compared with national banks.

9. Bank Examination

The power of surveilance over banks is conferred on the Commission of Bank Control by the Law of 1941. Accordingly, this body exercises sole power over the investigation, control, and discipline

of banks, as defined by the provisions of the Law. This power is primarily one of "technical surveillance" over banking operations.

To carry out its investigation, the Commission is given the power to examine the accounts and periodic balance sheets (*bilan*) submitted at its request as informative or justificatory measures. Furthermore, the Commission, which may be assisted by one or more persons from the Bank of France, may examine, on the spot, the records or operations of any bank. The Law provides that banks must supply the Commission with any information it may request, subject to penalties and fines for delay and misrepresentation.

10. Cartel Restrictions

See earlier discussion on "Codes of Fair Competition."

11. Evenhandedness of Application of Regulation

As a rule, the establishment and activity of foreign banks in France are not subject to other rules or controls than those reflected in the banking legislation and regulatory measures applicable to domestic banks.

In reality, however, as practice reveals and an authority in this field states, ". . . if foreign banks suffer a few disadvantages in respect to their establishment in France, most of these discriminations are not judicial, regulatory or administrative. . . . They stem rather from the nature of the problem." Furthermore, some of these disadvantages and discriminations result from the mere fact that "the same regulatory provisions do not weigh to the same extent on all banks, large and small, old and recently established."

As stated by Professor Gavalda, the freedom of establishment of foreign banks is admitted in France without argument. However, their freedom to carry out banking services is under active discussion

APPENDIX FOR FRANCE

Excerpt From the International Monetary Fund Twenty-Sixth Annual Report on Exchange Restrictions, 1975, Washington, D.C.

France

(*Position on December 31, 1974*)

Exchange Rate System

The par value is 0.160000 gram of fine gold per French Franc, and France avails itself of wider margins. Since January 19, 1974, no predetermined margins have been maintained between the French franc and any other currencies.[1] On December 31, 1974 the rate for the U.S. dollar was F 4.445=US$1.

Fixed conversion rates in terms of French francs apply to the currencies of the following countries and territories: the Operations Account countries,[2] the French Overseas Departments,[3] the French Overseas Territories (except the Territory of the Afars and the Issas), and the Condominium of the New Hebrides. These conversion rates have been maintained at pre-August 15, 1971 levels and are applied irrespective of the nature of payments or receipts.

Authorized banks in France and in Monaco, which may also act on behalf of banks established abroad or in Operations Account countries, are permitted to deal spot or forward in the exchange market in France. Authorized banks may also deal spot and forward with their correspondents in foreign markets in all currencies. Nonbank residents may purchase forward exchange only in respect of imports and of certain merchanting transactions, but their forward sales of foreign currency are free, whether these represent export proceeds or other receipts. On the import side, forward cover is available for some commodities for 6 to 12 months, and for all others for 3 months. On the export side, an underlying contract is required and cover is available for the full maturity of the export contract or up to 1 month after the date on which the proceeds are collected.

France formally accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement, as from February 15, 1961.

Exchange Control Territory

The exchange control regulations are applicable in all territories of the French Republic except the French Territory of the Afars and the Issas, i.e., in continental France, Corsica, the Overseas Departments (Guadeloupe, Martinque, Guiana, and Réunion), and five of the six Overseas Territories (Comoro Islands, St. Pierre and Miquelon, New Caledonia, Wallis and Futuna Islands, and French Polynesia). No exchange control is applied in relation to the Principality of Monaco or the Operations Account countries,[2] payments between France and these countries are free of restriction on the French side and take place at fixed exchange rates. All other countries are considered foreign countries for exchange control purposes;[4] all payments between France and foreign countries are subject to exchange control. The Condominium of the New Hebrides is considered a foreign country for exchange control purposes. For imports and exports of gold, the Operations Account countries are also considered foreign countries.

Certain controls that are independent of the exchange control regulations are maintained over inward and outward direct investment and over borrowing abroad; these transaction controls are not applicable to the Operations Account countries or Monaco, and those over direct investment do not apply to member countries of the EEC. Privileged treatment in respect of trade transactions is accorded to (1) the Operations Account countries and (2) Algeria, Guinea, the Khmer Republic, Laos, the Malagasy Republic, Mauritania, Morocco, Tunisia, North Viet-Nam, the Republic of Viet-Nam, and the Condominium of the New Hebrides.[5]

Footnotes at end of article.

Administration of Control

The Directorate of the Treasury of the Ministry of Economy and Finance is the coordinating agency in the field of financial relations with foreign countries. It is in charge of exchange control and of all matters relating to inward and outward direct investment and to borrowing abroad, unless these matters relate to real estate companies, when the Bank of France screens applications and notifications. The Directorate of the Treasury also evaluates the balance of payments, together with the Bank of France, which collects the data for its compilation. Certain exchange control powers have been delegated to the Bank of France, including the authority to license imports and exports of gold. Other exchange control powers have been delegated to the Directorate-General of Customs and Indirect Taxes and in the Overseas Departments and Territories to the Caisse Centrale de Coopération Economique (CCCE).

The Directorate of Insurance of the Ministry of Economy and Finance has certain powers in respect of matters relating to insurance, reinsurance, annuities, etc. The material execution of all transfers has been delegated to authorized banks and stockbrokers and to the Postal Administration. The Director-General of Customs and Indirect Taxes establishes import and export procedures and controls, within the framework of commercial policy directives given by the Directorate of Foreign Economic Relations; the Directorate-General also issues import and export licenses, is responsible for any legal problems arising from the exchange regulations, and in particular handles any litigation relating thereto. Technical visas required for certain imports and exports are issued by the competent ministry or by the Directorate-General of Customs and Indirect Taxes. The Ministry of Industrial and Scientific Development has certain responsibilities in respect of licensing contracts and contracts relating to technical assistance.

Prescription of Currency

Settlements with Operations Account countries may be made in French francs or the currency issued by any institute of issue that maintains an Operations Account with the French Treasury.[6] Settlements with all other countries may be made in any of the currencies of those countries or through nonresident Foreign Accounts in Francs. Settlements with Algeria, Morocco, and Tunisia, however, normally take place in French francs only. Importers and exporters are free to invoice in any currency.

Nonresident Accounts

A nonresident account in francs may be freely opened by an authorized bank for nonresidents, including French nationals (other than French officials) who have been residing abroad for at least two years. All overdrafts and advances on nonresident-held franc accounts are subject to general or specific permission.

Foreign Accounts in Francs may be freely credited with (1) the franc proceeds of the spot or forward sale of foreign currencies on the French exchange market by a nonresident; (2) the franc proceeds of the sale of foreign banknotes to an authorized bank by a nonresident bank or traveler; (3) the franc equivalent of an authorized bank's arbitrage in foreign currencies on a foreign market; (4) French banknotes (and those of the Operations Account countries) mailed direct from abroad to the main office of the Bank of France by an authorized bank's foreign correspondents; (5) transfers from other Foreign Accounts in Francs; (6) any authorized payment by a resident to a nonresident, including interest on balances in Foreign Accounts in Francs; (7) the sales proceeds, income, and amortization from French and foreign securities held in a foreign dossier in France, including securities accruing in France to a nonresident by donation or inheritance; (8) liquidation proceeds of nonresident-held direct investments[7] or real estate; and (9) the proceeds of the sale, through the intermediary of a notary public, of real estate belonging to nonresidents. These accounts may be freely debited for (1) spot purchases of any foreign currency on the exchange market by a nonresident; (2) the purchase by a nonresident of foreign banknotes or withdrawals in French banknotes; (3) the equivalent in francs of arbitrage abroad in foreign currencies by an authorized bank; (4) French banknotes (and those of Operations Account countries) mailed by authorized banks direct to their foreign correspondents; (5) transfers to other Foreign Accounts in Francs; (6) approved direct investment in France by nonresidents;[7] (7) purchases of real estate from residents, through the intermediary of a notary public; (8) purchases in France of French or foreign securities; (9) interest on and repayment of loans granted by residents; and (10) any payment by a nonresident to a resident.

Footnotes at end of article.

If French francs accruing to a nonresident are not transferable, or not immediately transferable, they may be credited to a Suspense Account in francs in the name of the beneficiary; balances up to F 50,000 that existed on August 9, 1973 have been released. The unremittable funds of emigrants of French nationality must be retained in resident accounts (*comptes intérieurs*) until they become nonresidents (i.e., until they have stayed in a foreign country for two years); emigrants of foreign nationality become nonresidents immediately and therefore may take out all of their assets upon departure.

Imports and Import Payments

Goods originating in and shipped from other parts of the French Franc Area or from certain other countries that are accorded privileged treatment in respect of trade transactions (see section on Exchange Control Territory, above) are generally admitted free of quantitative restriction and individual license. Imports of goods which originate in other countries and are not covered by French import liberalization require individual licenses. Some imports from EEC countries and some other imports from non-EEC countries are subject to minimum prices; these require an administrative visa and sometimes, exceptionally, an import license.

For import control purposes, countries outside the French Franc Area are divided into four groups according to the extent of import liberalization: (1) the former OEEC countries, their dependent territories and certain former dependent territories, Andorra, Canada, Finland, the United States, and Yugoslavia; (2) 49 specified countries;[8] (3) the Eastern European countries (Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, and the U.S.S.R.) and the People's Republic of China; and (4) the German Democratic Republic. Commodities that may be imported free of quantitative restrictions from one group of countries include all the commodities that may be freely imported from the next group of countries plus some other specified commodities. Goods covered by the import liberalization arrangements applicable to one country may be imported freely from another country, provided that the country of origin and the country of shipment both benefit from the same degree of liberalization.

Imports of practically all industrial products from countries in group (1) are free of quantitative restrictions, but such restrictions are applied to a number of agricultural products; there is relatively little difference between the lists of goods which may be imported freely from different countries in this group, these differences relating mainly to Hong Kong and Macao. Imports of certain industrial products from countries in group (2) are restricted and restrictions are applied to these and to certain additional industrial products from group (3) countries. For some commodities, there are global quotas that are allocated semiannually and apply to all countries other than those having the benefit of bilaterally negotiated quotas or of privileged treatment. Imports from all countries of certain agricultural items and certain raw materials are free of quantitative restrictions.

Imports from non-EEC countries of most products covered by the Common Agricultural Policy of the EEC are subject to variable import levies that have replaced all previous barriers to imports; common EEC regulations are also applied to imports from non-EEC countries of most other agricultural and livestock products.

Liberalized imports are not subject to trade control formalities, only a customs document that constitutes the customs declaration being required; however, as an exchange control measure, the domiciliation of the import transaction at an authorized bank may be prescribed. For some liberalized imports, an administrative visa issued by the central Customs Administration or by the competent technical ministry is required on an import declaration. Imports of the products of the European Coal and Steel Community require licenses when originating in non-ECSC countries.

Other imports generally require individual import licenses. These are granted up to quotas determined on an individual commodity basis or for a group of commodities and applicable to specified countries or areas in accordance with trade agreements or an import plan drawn up for a definite period. Moreover, licenses may be issued under the compensation transaction procedure, which applies mainly to goods of Eastern European origin. Because of the high degree of import liberalization, imports under this scheme are of slight importance.

Payments for imports from foreign countries must be made by credit to a Foreign Account in Francs or with foreign currency purchased in the French exchange market; imports valued at less than F 10,000 may also be paid for through postal channels.

Footnotes at end of article.

Authorized banks may without special authorization allow advance payments to be made that are provided for in the commercial contract, up to 30 percent of the price for capital goods and up to 10 per cent for all other goods. Higher advance payments require prior approval by the Customs Administration. For all imports, importers may purchase spot foreign currency one month before the payment falls due (one month before shipment if a documentary credit is opened). There is no restriction on the use of suppliers' credit. The import payment itself can be made as soon as the importer can present evidence to his bank of domiciliation that the goods have been dispatched. Three months' forward cover for import payments can be obtained for any commodity; for the import of specified raw materials and specified foodstuffs (unroasted coffee, corn, rice, etc.) forward cover for six months or one year is available. The foreign currency may be purchased forward at the time of domiciliation, but the maturity of the forward exchange contract must not exceed the date on which the commercial payment is due.

Payments for Invisibles

Payments for current invisibles to foreign countries are controlled but not restricted as to amount. If justifying documents are presented and certain exchange control requirements are met, authorized banks are permitted to approve applications for payments without any limitation for many categories of current invisibles, and up to established limits for certain other categories of current invisibles. Applications for all other payments for invisibles and for amounts in excess of established limits are referred to the Bank of France to prevent unauthorized capital transfers; such applications are approved if a genuine current payment is involved. Any resident may freely and at any time make remittances abroad up to the equivalent of F 1,500 a person without indicating their purpose, provided that the transfers do not constitute installments of payments exceeding F 1,500, are not for purposes subject to special allocation, and do not serve to accumulate funds abroad.

Payments which may be authorized without limitation by authorized banks include those related to approved trade transactions; income accruing to nonresidents in the form of profits, dividends, and royalties; banking commissions, patent fees, and specified categories of taxes; specified insurance payments; fees to medical doctors, lawyers, etc.; alimony in accordance with court decisions; and net salaries or wages of foreigners employed in France, provided that the transfer takes place within three months from the date of payment.

Irrespective of the exchange control regulations, certain transactions between persons or firms in France and abroad are subject to restriction; these include certain transactions relating to insurance, reinsurance, and road and river transport.

The basic exchange allocation for tourist travel to foreign countries by residents (defined for this purpose as including residents of Operations Account countries) is the equivalent of F 5,000 a person a trip, which may be taken up for any number of trips a year. The basic allocation for business travel is the same plus the equivalent of F 500 a person a day. Applications for exchange in excess of the basic allowance for any type of travel are approved by the Bank of France, provided that no capital outflow is involved. Any unutilized foreign currency in excess of the equivalent of F 1,000 must be surrendered upon return to France. Applications for travel exchange cannot be submitted earlier than one month before departure. The use abroad of credit cards issued in France is unrestricted for the settlement of expenditures; in addition, the holder may use them to obtain funds from banks abroad up to F 1,000 a week. All fares for trips starting in France may be paid in francs in France, as may hotel costs and other transportation expenses.

Resident travelers going to foreign countries may take out F 5,000 in French banknotes. These banknotes may be spent abroad. Nonresident travelers may take out F 5,000 in French banknotes and may reconvert in the French exchange market into foreign currency any French banknotes up to F 5,000 obtained by the conversion in that market of foreign means of payment that they declared upon entry or obtained by debit to a Foreign Account in Francs; any remaining French banknotes must be deposited with the customs against issuance of a receipt.

Resident travelers may freely take out the equivalent of F 5,000 in foreign notes and coins when acquired in the French exchange market against a tourist travel allocation, or, if they are leaving on a business trip, the equivalent of F 5,000 in foreign banknotes or in checks. Nonresident travelers may not, in

Footnotes at end of article.

principle, take out more than the equivalent of F 5,000 in foreign banknotes unless they were declared upon entry and the annotated declaration form shows that the amount to be taken out does not exceed that imported minus any amounts exchanged for francs plus any reconversion of francs into foreign currencies. However, nonresident travelers may also freely take out any other means of payment established in their name abroad, as well as, subject to the submission of an authorized bank's declaration, any amount in foreign banknotes or foreign currency travelers checks acquired in France from an authorized bank by conversion of foreign exchange in the French exchange market, by debit to a Foreign Account in Francs, or by debit to a foreign currency account.

Exports and Export Proceeds

Certain goods on a prohibited export list may only be exported if a special license is issued. Some other exports also require individual licenses; but if the total value does not exceed F 500, these exports may be permitted without any formality, subject to certain exceptions. Regardless of their value, exports through compensation transactions with certain countries [9] require licenses if the commodities are those for which export licenses are required.

Exports to foreign countries are subject to exchange control. Payment must be received through the official exchange market. The repatriation [10] and, where appropriate, the surrender by sale in the exchange market of proceeds from exports to foreign countries is required, normally within one month of the date on which the payment falls due. Authorized banks may freely extend foreign currency advances to exporters; such advances and their repayment may be settled in the French exchange market, as may the proceeds from the discounting of foreign currency drafts presented by exporters. The due date of the commercial contact (and, therfore, the due date of the export receipts) cannot, except with special authorization or when a guarantee by the Compagnie Française d'Assurance pour le Commerce Extérieur (Coface) has been obtained, be more than 180 days after arrival of the goods at their destination. Export proceeds must not be received in French or foreign banknotes or banknotes issued by an institute of issue maintaining an Operations Account with the French Treasury, or by debit to a postal checking account in France. Certain goods purchased in France by persons not normally residing in France are considered as exports even when paid for in French francs, and are exempt from taxes.

Proceeds from Invisibles

Proceeds from transactions in invisibles with Monaco and the Operations Account countries may be retained. All amounts due from residents of other countries in respect of services and all income earned in those countries from foreign assets must be repatriated and, where appropriate, surrendered, within one month from the due date. With minor exceptions for certain types of transactions, services performed for nonresidents do not require licenses.

Resident and nonresident travelers may bring in any amount of banknotes and coins (except gold coins) in French francs, CFA francs, CFP francs, or any foreign currency; however, the exchange of banknotes issued by Algeria, Morocco, and Tunisia is prohibited at the request of those counties. Resident travelers must within a month of entry sell in the French exchange market any foreign banknotes or travelers checks in excess of F 1,000 that they bring in.

Capital

Capital movements between France and Monaco and the Operations Account countries are free of exchange control; capital transfers between France and all other countries are subject to exchange control approval. With the exception of purchases of French and foreign secutiries abroad, outward transfers or resident-owned capital generally are restricted; capital receipts from foreign countries generally are permitted freely, provided that the foreign exchange proceeds are surrendered by sale in the exchange market (but see below for special controls over borrowing abroad and over inward direct investment). Capital assets abroad of residents are not subject to repatriation. Residents are freely permitted to purchase real estate abroad for personal use as their principal residence, up to F 300,000 a family unit. The transfer abroad of nonresident-owend funds in France, including the sales proceeds of capital assets, is not restricted.

French and foreign securities held in France by nonresidents can be exported, provided that they have been deposited with an authorized bank in a foreign dossier (*dossier étranger de valeurs mobilières*); French and foreign securities held under a

Footnotes at end of article.

foreign dossier can also be sold in France and the sales proceeds can be transferred abroad. Foreign securities held in France by a nonresident must be deposited with an authorized bank; French securities held in France by nonresidents need not be deposited but cannot be dealt with or exported unless they have been deposited. Foreign securities held in France by residents must be deposited with a qualified bank or broker. Residents may hold French and foreign securities abroad under the control of a French authorized bank or broker. The exportation for the account of residents of French securities held in France is prohibited, except when they are to be sold abroad.

Subject to compliance with the special regulations concerning inward and outward direct investment that are summarized below, residents may freely purchase French and foreign securities on stock exchanges abroad, through authorized banks.[11] Such French and foreign securities may be held or sold abroad but they may also be imported and then either be held or sold on a French stock exchange. The proceeds of the sale abroad of French or foreign securities must be sold on the exchange market within two months of receipt, unless used within that period for reinvestment in securities abroad. Correspondingly, nonresidents holding French or foreign securities abroad (whether acquired before November 24, 1968 or later) may freely import them into France and hold them in a foreign dossier, or sell them on a stock exchange in France and repatriate the proceeds through the French exchange market.

Special controls (additional to any exchange control requirements that may be applicable) are maintained over borrowing abroad and over inward and outward direct investment. In principle, these controls relate to the transactions themselves, not to payments or receipts. At present, however, their application is in many instances affected by exchange control requirements. With the exception of the controls over capital issues in France, the transaction controls do not apply to countries whose bank of issue is linked with the French Treasury by an Operations Account. Furthermore, the transaction controls over direct investment are not applicable to member countries of the EEC, direct investment transactions with which are subject to exchange control declaration and exchange control approval only.

Foreign direct investments in France and French direct investments abroad require prior declaration to the Minister of Economy and Finance; in relations with member countries of the EEC, the declaration is required under the exchange control regulations rather than under the special transaction controls, and prior exchange control authorization is required for all direct investment operations liable to involve a capital movement. Direct investments are defined as investments implying control of a company or enterprise. Mere participation is not considered as direct investment, provided that it does not exceed 20 per cent of the capital of a company whose shares are quoted on the stock exchange; any participation in any other type of firm is considered a direct investment. The Directorate of the Treasury, in evaluating the degree of control, takes into account any special relationships resulting from stock options, patents and licenses, commercial contracts, etc. Except in respect of EEC countries, the Minister has a period of two months from receipt of the declaration during which he may request the postponement of the projects submitted to him. Unless the amount involved is less than F 1 million, documentary evidence must be submitted to the Directorate of the Treasury before the liquidation proceeds of foreign direct investments in France may be transferred abroad, and the liquidation itself must be reported to the Minister within 20 days after it takes place. As an exception to the declaration and approval requirements summarized earlier in this paragraph, the making or the liquidation of direct investments abroad by residents is exempt from prior declaration or prior authorization when the amount involved does not exceed F 1 million a year for each beneficiary firm abroad, and provided that the transactions do not involve holding companies, investment companies, investment trusts, unit trusts, mutual funds, or companies whose purpose it is to facilitate the financing or treasury functions of enterprises belonging to one or more groups. Also, certain inward direct investment up to F 1 million a transaction is exempt from prior declaration or authorization.

Foreign issues on the French capital market are subject to prior authorization by the Minister of Economy and Finance. The requirement is applicable also to the Operations Account countries. Exempt from authorization, however, are operations in connection with (1) loans backed by a guarantee from the French Government, and (2) shares similar to securities that already are officially quoted on a stock exchange in France.

Borrowing abroad by physical or juridical persons, whether public or private

Footnotes at end of article.

persons, whose normal residence or registered office is in France, or by branches or subsidiaries in France of juridical persons whose registered office is abroad, requires prior authorization by the Minister of Economy and Finance.

The following types of borrowing are, in principle, exempt from this authorization: (1) loans constituting a direct investment, which are subject to prior declaration, as indicated above, and whose postponement may be requested by the Minister up to two months after receipt of the declaration; (2) borrowing by industrial firms for the execution of works abroad; (3) borrowing by any type of firmi to finance imports or exports; (4) loans related to certain international merchant ng transactions; (5) loans contracted by banks expressly permitted to borrow abroad (these include all authorized banks); and (6) foreign currency borrowing abroad by nonbank firms, when the total amount outstanding of these loans does not exceed F 10 million for any one borrower, provided that the interest rate is a "normal" market rate, that the borrowing is not for the purpose of direct investment, that the foreign exchange proceeds are surrendered, and that each drawing against the loan is separated by at least one year from the corresponding repayment. (However, between July 24, 1970 and the third quarter of 1973 borrowing in francs was restricted, the exemptions under (2), (3), (4), and (6) were limited to borrowing in foreign currency, and borrowing in francs by nonbank residents from nonresidents was in effect prohibited. Furthermore, during 1972 and most of 1973 banks and industrial companies were not normally allowed to borrow abroad to finance direct investment in France or abroad. During 1974, however, borrowing from nonresidents, whether in francs or foreign currency, was not normally restricted.) [12] All borrowings in Euro-francs are subject to prior authorization.

The application of the controls over direct investment and borrowing is delegated to the Bank of France insofar as they relate to French firms that are mainly engaged in real estate business.

Lending abroad is subject only to exchange control authorization by the Bank of France, which is given or withheld within the framework of directives issued by the Treasury. Since the imposition of exchange control in 1968, authorized banks have been virtually free to lend foreign currency to nonresidents, subject to certain reservations in respect of the granting of guarantees and varying limitations on their external position, and to resident importers and exporters. Lending to nonresidents in francs, however, is prohibited, with minor exceptions.

Authorized banks' foreign currency assets and their overall liabilities in francs and foreign currency to nonresidents are free from limitation. Authorized banks may freely sell foreign exchange on the official exchange market for the account of nonresidents, spot or forward. They are allowed to pay interest on nonresident-owned franc or foreign currency deposits. Nonresident-held franc deposits are not subject to reserve requirements, whether on balances held or on increases therein.

Nonresidents may freely purchase French short-term securities, including treasury bills, *bons de caisse*, and private drafts.

Gold

Residents are free to hold, acquire, and dispose of gold in any form in France. They may continue to hold abroad any gold they held there prior to November 25, 1968. There is a free gold market for bars and coins in Paris, to which residents have free and anonymous access and in which normally no official intervention takes place. Imports and exports of gold into or from the territory of continental France require prior authorization by the Bank of France, which is not normally granted for monetary gold but usually is given for industrial gold. Exempt from this requirement are (1) imports and exports of gold addressed to or shipped by the Bank of France; (2) imports and exports of manufactured articles containing only a minor quantity of gold, such as gold-filled and gold-plated articles; (3) imports and exports by private persons of gold objects (other than medals and bars, but including both personal and other jewelry) or numismatic gold coins, provided that their combined weight does not exceed 500 grams; and (4) collectors' items of gold and gold antiques that are exported under "02 licenses" granted with the approval of the Directorate of Museums. Both licensed and exempt imports of gold are subject to customs declaration. The import and export of certain gold objects that are considered merchandise, such as gold watches, are subject to both the regular import and export licensing arrangements and to licensing by the Bank of France.

A 20-franc gold coin, the napoléon, is legal tender but does not circulate. It is actively traded on the Paris stock exchange. In domestic trading, purchases of

Footnotes at end of article.

monetary gold (bars and coins) are not subject to value-added tax. Imports of monetary gold are exempt from customs duty and value-added tax.

Changes during 1974

January 7. It was announced that agencies and enterprises in the energy sector were with immediate effect being allowed to borrow at medium term and long term on the foreign and international capital markets.

January 14. Quantitative restrictions on certain industrial imports from Albania, Bulgaria, the German Democratic Republic, the People's Republic of China, North Korea, Hungary, Outer Mongolia, Poland, Romania, and the U.S.S.R. were removed.

January 15. With effect from January 21, the remaining reserve requirements against nonresident-owned franc deposits were rescinded. (Those on increases in such deposits had been eliminated in October 1973.)

January 17. It was announced that a tax of F 6 a ton would be levied on imports of crude petroleum.

January 19. It was announced that during the next six months, and on a temporary basis, the interventions of the Exchange Stabilization Fund in the official exchange market would no longer aim at limiting the exchange rates between the franc and certain other currencies within predetermined margins; during this period the monetary authorities would operate the exchange market in an orderly fashion. Restrictions were being introduced on capital outflows but not on current payments. No changes in the classification of transactions between official exchange market and financial franc market were announced. (At the end of the six-month period, France did not resume its participation in the European common margins arrangement.)

January 20. All lending of francs to nonresidents, whether by banks or nonbanks, was made subject to authorization, and such authorization was not normally granted. Previously, such lending was freely permitted up to periods of two years.

January 20. The general permission to authorized banks to credit nonresident franc accounts with the amount of loans in francs granted by residents was revoked. They could still debit such accounts for the repayment of franc loans granted to nonresidents prior to January 20.

January 20. Forward cover facilities for outgoing payments were again limited to imports and such cover was normally restricted to 3 months, although periods of 6 or 12 months were permitted for specified commodities.

January 21. Transactions with Algeria ceased to take place at a fixed exchange rate.

January 21. Export credit again was limited, unless special authorization or a COFACE guarantee was obtained, to 6 months after the arrival of the goods at their destination.

January 21. The exemption from approval requirements for "financial" foreign currency borrowing abroad by nonbank residents was increased from a total indebtedness for each borrower of F 2 million to F 10 million, provided that each drawing against a loan and the corresponding repayment were at least one year apart. (Foreign currency borrowings abroad or from authorized banks in France to finance imports or exports had never been subject to a ceiling, and they remained unaffected.) The circular of January 19, 1974 revoked that of March 21, 1969 (as amended by circulars of July 24, 1970 and September 8, 1970).

January 21. Bank of France Circular No. 200 A.F. specified the types of lending of francs to nonresidents that could still be undertaken by authorized banks. These were (1) franc overdrafts corresponding to normal mail credits (up to ten business days); (2) documentary credits in favor of French exporters, when opened on instructions from banks' foreign correspondents and provided the export transaction was settled within 6 months of arrival of the goods; (3) credits within the framework of financial protocols signed by the French Government with foreign governments or of interbank agreements formally approved by the Treasury; and (4) financial credits in francs granted by French banks to foreign buyers of French capital goods and guaranteed by COFACE. All other franc lending (or renewal of existing franc lending) to banking correspondents or other nonresidents was prohibited, including lending of francs to foreign correspondents or customers in the form of swaps of francs against foreign currencies. Banks were instructed to abstain in their relations with nonresidents from any transaction leading to a forward sale of francs by the latter, even an outright sale.

January 21. Bank of France Circular No. 201 A.F. permitted authorized banks to use their foreign currency holdings for "financial" loans to residents covered

Footnotes at end of article.

by the January 20 circular on borrowing abroad, i.e., where such borrowing was permitted without prior authorization.

January 31. The Minister of Economy and Finance announced that the French Government would borrow foreign currency equivalent to US $1.5 billion. Subscriptions to the loan were closed on February 4.

February 25. Imports of beef from "third" countries were restricted.

March 20. Certain measures to stimulate exports were announced. COFACE would henceforth cover short-term commercial risks on exports to certain countries for which it previously did not grant cover; these risks would be guaranteed by the State, according to the normal procedure. For industrial investments abroad, investment guarantees would be granted on reinvested profits, up to 50 per cent of the initial amount invested. The maximum duration of investment guarantees would be increased from 10 to 15 years, and the ordinary coverage from 75 per cent to 90 per cent.

March 21. Medium-term and long-term credits for the financing of exports of capital goods were no longer taken into account in calculating minimum reserve requirements on credit extended by banks; this confirmed a rule already followed in practice previously.

March 21. The dual exchange market was unified by the abolition of the financial franc market. The Treasury Circular of May 5, 1972 concerning the execution of transfers between France and foreign countries through the official exchange market and the financial franc market was revoked. In the remaining circulars issued since August 20, 1971 under Decree No. 67–78 and Decree No. 68–1021, the terms "financial franc market" and "Financial Account in Francs" were replaced by "official exchange market" and "Foreign Account in Francs," respectively. The fixed exchange rates for the CFA francs, the CFP franc, and the New Hebrides franc remained unchanged. (On March 22, a circular was issued which specified the permitted debits and credits to Foreign Accounts in Francs and provided new rules regarding *dossiers êtrangers de valeurs mobilières.*)

May 30. France signed the OECD Declaration on Imports, Exports, and Other Current Account Transactions.

June 12. The supervision over domestic bank credit to foreign-owned or foreign-controlled firms in France was tightened.

July 2. Law No. 74–626 authorized the approval of the cooperation agreement of December 4, 1973 between France and the member countries of the West African Monetary Union.

July 15. Imports of cattle and beef from "third" countries were suspended to a decision of the EEC Ministers of Agriculture.

July 26. Decree No. 74–721 modified Decree No. 68–1021 (as amended). The Minister of Economy and Finance was authorized to exempt from prior declaration or prior authorization certain financial transactions relating to inward and outward direct investment. Decree No. 72–365 of May 5, 1972 was revoked. The new decree was implemented by an Order and two Circulars, all of July 26. (See August 17, below.)

August 7. Short-term export credits were exempted from the overall ceiling of 13 percent on the growth of bank credit; during August and September they would be allowed to increase by 19 percent (on a year-to-year basis).

August 9. Special investment credit facilities were introduced to enable small and medium-sized firms to expand their export business.

August 9. The Director-General of Customs and Indirect Taxes issued a circular modifying slightly the regulations governing imports and exports of gold.

August 17. The regulations governing French direct investments abroad as well as foreign direct investments in France (or their liquidation) were relaxed slightly, and their supervision was partially delegated to authorized banks. In future, French investments abroad of less than F 1 million a year (except those by holding companies, companies engaged in portfolio investments, and similar financial companies) would not require prior declaration or prior approval. Furthermore, prior declaration or prior approval would not be required for foreign investments in France of less than F 2 million a year as long as the operation aimed at developing French companies already controlled by foreign interests, or for certain foreign borrowing up to F 2 million a year. However, such investments would have to be in foreign currency and must not entail an increase of the nonresident stake in the French company. Also exempt from prior declaration or authorization, up to F 1 million a transaction, were the purchase or creation of small companies in France by nonresidents. At the same time, the regulations concerning guarantees by residents in favor of nonresidents or by nonresidents in favor of residents were relaxed; in certain cases these also became exempt from prior declaration

Footnotes at end of article.

and prior authorization. (The new legislation was dated July 26 but was published in the Official Gazette on August 17.)

September 25. The Council of Ministers approved new energy saving measures. Imports of crude petroleum and petroleum products (net) would in 1975 be limited in principle to a maximum of F 51 billion, regardless of price developments (Law No. 74–908 of October 29, Decree No. 74-940 of November 12, and Order of December 31).

September 26. The permissible year-to-year growth rate for short-term export credits was increased to 22 percent for the last quarter of 1974.

September 29. Certain exchange control formalities and obligations relating to payments in respect of imports and exports were abolished, including the requirement of domiciling import and export transactions (previously applicable to all imports from foreign countries when valued at F 50,000 or more) and the requirement of an *engagement de change* for exports to foreign countries.

October 19. The effective interest rate on export credits was raised to 7.5 per cent, with immediate effect for new contracts, and with effect from January 15, 1975 for existing contracts.

November 15. A circular was issued which introduced further minor changes in the regulations governing borrowing abroad and inward and outward direct investment. It modified the relevant circulars of January 19 and July 26.

November 21. It was announced that with effect from January 1, 1975 the metropolitan French franc would replace the CFA franc as legal tender in the overseas Departments (Guadeloupe, Martinique, Guiana, and Réunion). (The measure was put into effect on March 31, 1975 by Decree No. 75–182 of March 19, 1975, which implemented Article 17 of Law No. 74–1114 of December 27, 1974.)

December 6. The permissible interest rate spread on Euro-currency credits taken up by public sector agencies and eligible for a state guarantee was reduced.

December 31. Decree No. 74–1177 transferred with effect from January 1, 1975 the issue of currency in the Comoro Islands from the Bank of Madagascar and the Comores to the Institute of Issue of the Comoro Islands. (The charter of the latter was issued in Decree No. 74–1176 of December 31.)

NOTES

[1] The currencies that are officially quoted are Austrian schillings, Belgium francs, Canadian dollars, Danish kroner, deutsche mark, Djibouti francs, Italian lire, Mexican pesos, Netherlands guilders, Norweigian kroner, Portuguese escudos, pounds sterling, Spanish pesetas, Swedish kronor, Swiss francs, U.S. dollars, and zaïres.

[2] Countries whose institute of issue maintains an Operations Account with the French Treasury: Cameroon, Central African Republic, Chad, People's Republic of the Congo, Dahomey, Gabon, Ivory Coast, Mali, Niger, Senegal, Togo, and Upper Volta.

[3] With effect from March 31, 1975, the French franc replaced the CFA franc issued by the Institute of Issue of the French Overseas Departments as the currency of the Overseas Departments.

[4] Present French legislation no longer makes reference to the concept French Franc Area. From an exchange control point of view, this Area ceased to exist with effect from January 31, 1967. In the context of countries' overall relations with France, however, the concept survives. In this sense the French Franc Area consists of France and the following countries: (1) the countries of the West African Monetary Union (Dahomey, Ivory Coast, Niger, Senegal, Togo, and Upper Volta); (2) the countries of the Central African Customs and Economic Union (Cameroon, Central African Republic, People's Republic of the Congo, and Gabon) and Chad; (3) three North African countries (Algeria, Morocco, and Tunisia); (4) two former Operations Account countries (Malagasy Republic and Mauritania); and (5) one other country (Mali). This broad definition is followed, inter alia, in compiling the balance of payments. In the context of France's monetary relations, the concept of French Franc Area is narrower, excluding the countries of groups (3) and (4).

[5] These countries and territories are listed in Article 86 of an Order of January 30, 1967 of the Directorate-General of Customs and Indirect Taxes (as amended on February 6 and May 31, 1967).

[6] In addition to the institutes of issue of the Operations Account countries, these are the Institute of Issue of the French Overseas Departments (for Guadeloupe, Martinique, Guiana, and Réunion); the Overseas Institute of Issue (for New Caledonia, French Polynesia, Wallis and Futuna Islands, and St. Pierre and Miquelon); and the Bank of Madagascar and the Comores (for the Comoro Islands)—but see note 3. With effect from January 1, 1975 the functions of the last-named institute were transferred to the Institute of Issue of the Comoro Islands.

[7] Subject to compliance with the provisions of Decree No. 68–1021 of November 24, 1968, as amended by Decree No. 71–144 of February 22, 1971, and Decree No. 72–365 of May 5, 1972.

[8] Afghanistan, Argentina, Australia, Bhutan, Bolivia, Brazil, Burma, Chile, Republic of China, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, Guatemala, Haiti, Honduras, India, Indonesia, Iran, Iraq, Israel, Japan, Jordan, Republic of Korea, Lebanon, Liberia, Libyan Arab Republic, Mexico, Nepal, New Zealand, Nicaragua, Pakistan, Panama, Paraguay, Peru, Philippines, Saudi Arabia, South Africa, Sri Lanka, Sudan, Syrian Arab Republic, Thialand, Uruguay, Venezuela, and Yemen.

[9] Albania, Bulgaria, People's Republic of China, Czechoslovakia, Egypt, German Democratic Republic, Hungary, North Korea, Poland, Romania, Turkey, U.S.S.R., Yugoslavia, and certain Latin American countries.

[10] Repatriation may take place either by collection of foreign currency or by debit to a Foreign Account in Francs.

[11] The existing general permissions do not cover the sale in France by nonresidents, or the purchase abroad by residents, of securities that are not quoted on a recognized stock exchange.

[12] On April 3, 1975, the Minister of Economy and Finance stated that public sector companies had been asked to reduce their borrowings abroad and that the Government would encourage Euro-franc bond issues by foreign companies.

Greece*

General Information

The banking system of Greece comprises the Central Bank, the commercial banks, special credit institutions, and development banks. The highest monetary authority is the Currency Committee with responsibility over all monetary and credit matters.

A significant development in the Greek economy during the recent years is the increased number of foreign banks which operate there. Over ten foreign banks with branch offices in several small towns are in operation now, and it is estimated that they handle about 10 percent of the commercial activities.

For the establishment of a foreign bank, a license of the Currency Committee is required, which is granted once the provisions of the pertinent laws are satisfied. Such licenses are granted as a matter of course. However, it must be noted that a new regulation recently passed, requires foreign applicants to import 10 million U.S. dollars for every new branch that is opened, instead of 5 million as previously required. This amount must remain in Greece for the entire duration of the bank's operations, whereas previously it was required to remain in Greece for 5 years only. The imported capital may be deposited in foreign exchange with the Bank of Greece or used for long-term credit operations.

The laws which apply to domestic banks are equally applicable to foreign banks as well. Therefore, the answer given in the following paragraphs refers to both domestic and foreign banks.

1. Deposit Restrictions

(*a*) *Limits on Deposits of Resident Nationals*

There is no restriction on the deposits of resident nationals regarding domestic or foreign currency, although in practice only domestic currency is available to Greek nationals in Greece.

(*b*) *Limits on Inflows of Funds from Abroad*

Once the required procedure concerning import of foreign capital is complied with, no limit exists on such inflows.

(*c*) *Foreign Bank Access to Savings Deposits*

No distinction is made as to the access of foreign banks.

(*d*) *Codes of Fair Competition*

All enterprises are subject to the law against unfair competition. The same holds true for all banks.

2. Reserve Requirements

(*a*) *Direct Reserve Requirements*

Direct reserve requirements refer to the interest-free deposits which commercial banks are required to keep in the Bank of Greece. Thus, all banks must deposit 20 percent of their private sight and restricted deposits and 5 percent of private savings deposits, except for deposits with 3 month's notice. These reserve requirements are non-interest-bearing.

Moreover, banks are obliged to deposit another 20 percent of their private sight and restricted deposits and 3 percent of their private time and savings deposits. The latter category of deposits is with interest.

***Prepared by Harris Stavrakakis, Senior Legal Specialist, European Law Division, Law Library, Library of Congress, November 1975.**

(b) Special Deposits

Banks are required to set aside 6 percent of the increase of their deposits in a special fund for credit to certain sectors of the economy, or to deposit the equivalent with the Bank of Greece in a special account bearing interest at 3 percent per annum.

(c) Secondary Reserves

The secondary reserves requirement applies to all banks and refers to the compulsory investment in treasury bills, government bonds, and bonds of public enterprises. The current rate, which is 39 percent, applies to private sights, savings, and restricted deposits. The rate which applies to private time and to 3 month's notice savings deposits is 4 percent.

(d) Liquidity Ratios

All banks are required to apply 15 percent of their total deposits to medium and long-term loans. A bank which fails to meet this requirement must deposit a sum equal to the difference in a special account in the Bank of Greece.

3. Priority Investments

There are no priorities in investment. However, indirectly a bank may be made to commit certain sums for specific purposes.

4. Credit Ceilings

The credit ceiling is an instrumentality whereby the fiscal authorities influence the money market. The amount of credit ceiling varies depending on the economic circumstances.

5. Loan Restrictions

Certain restrictions exist as to the amount to be loaned, and banks are also committed to set aside certain amounts for certain projects.

6. Interest Rate Limits

Interest rates on deposits and on credit to the various sectors of the economy are determined by the Currency Committee. The role of the interest rate is to influence the allocation of credit.

7. Exchange Controls

Exchange controls are in effect for all banks.

8. Central Bank Credit

All banks have access to the central bank credit. The present cost is 8 percent.

9. Bank Examination

All banks are subject to the control of fiscal authorities.

10. Cartel Restrictions

No such restrictions are in effect; the merger of banks is allowed once the provisions of the law on the subject are met.

11. Evenhandedness of Application of Regulation

As indicated above, domestic and foreign banks are subject to the same laws and authorities. This implies that there is uniform treatment.

Hong Kong

BANKING

ANY DEPOSIT RESTRICTIONS

Limits on deposits of resident nationals—domestic currency versus foreign currencies, all banks, domestic banks versus foreign banks	Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic	Foreign bank access to savings deposits	Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks
(a)	(b)	(c)	(d)
No limits	No limits	Unrestricted	No restrictions.

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC

Direct reserve requirements—all banks, foreign versus domestic—requirement that deposits be kept with central bank or government agencies.	"Special deposits"	Secondary reserves	Liquidity ratios
(a)	(b)	(c)	(d)
No provision	No	No	Statutory liquidity ratio of 25 percent of total deposit liabilities must be maintained.

Priority investments—government securities, housing, development banks, long-term loans, etc., all banks, foreign versus domestic.	Credit ceilings—either re domestic inflation or balance of payments.	Loan restrictions re classes of borrowers or uses of funds also structural restrictions (such as prohibitions against underwriting)—all banks, foreign versus domestic.	Interest rate limits—all banks, foreign versus domestic.	Exchange controls all banks, foreign versus domestic.
None	None	Maximum limit on advances to any 1 person and on limited direct investment by banks to a proportion of their capital and reserves—applicable to all banks.	After a period of competition through interest rates, the Exchange Banks Association has set up an interest rate agreement to which all banks conform, with differential maximum rates laid down for different classes of banks.	Hong Kong has rescinded all exchange controls.

Hong Kong—Continued

BANKING—Continued

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC—Continued

Central bank credit—access and cost—all banks, foreign versus domestic. If there is nominal access, is there nevertheless discrimination?	Bank examination—all banks, foreign versus domestic. What is the interval and nature of examination?	Cartel restrictions—against particular operations? Need for cooperation? Big versus little banks; foreign versus domestic	Evenhandedness of application of regulation overall
Not applicable—Hong Kong has no central bank.	Bank accounts are audited yearly and banking information is published. Monthly reports required from foreign banks as well as from domestic banks. Inspection and investigation of banks under the Banking Act may be made if shareholders of the bank holding not less than 1/5 of the total number of issued shares, or depositors holding not less than 1/10 of the gross deposit liabilities in Hong Kong of the bank, or a sum equal to the aggregate of the paid up capital of the bank and its published reserve, whichever is greater, apply to the Commissioner of Banking to make an investigation and if they submit evidence which he considers necessary to justify the request, and furnish security for payment of the costs of the investigation, as the commissioner may require. Investigation may also take place if the bank suspends payment or informs the commissioner of its intention to suspend payment.	None	Evenly applied to all banks

Iran

BANKING

ANY DEPOSIT RESTRICTIONS

Limits on deposits of resident nationals—domestic currency versus foreign currencies, all banks, domestic banks versus foreign banks	Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic	Foreign bank access to savings deposits	Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks
(a)	(b)	(c)	(d)
Iranian nationals may freely maintain time deposits in foreign currencies in Iran; they may also retain, on foreign accounts with domestic banks, all foreign exchange they receive.	No restrictions specified by law.	No restrictions specified by law.	No restrictions specified by law.

IRAN—Continued

BANKING—Continued

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC

Direct reserve requirements—all banks, foreign versus domestic—requirement that deposits be kept with central bank or government agencies (a)	"Special deposits" (b)	Secondary reserves (c)	Liquidity ratios (d)
Fixed by Central Bank of Iran according to type of business bank.	None specified	None specified	Fixed by Central Bank of Iran.

Priority investments—government securities, housing, development banks, long-term loans, etc. all banks, foreign versus domestic.	Credit ceilings—either re domestic inflation or balance of payments.	Loan restrictions re classes of borrowers or uses of funds also structural restrictions (such as prohibitions against underwriting)—all banks, foreign versus domestic.	Interest rate limits—all banks, foreign versus domestic.	Exchange controls all banks, foreign versus domestic.
None specified by Iranian law.	None specified	May not grant credit to members of its own organization or members of Central Bank of Iran (except according to special regulations.) Prohibitions against: (1) buying and selling goods for trading purposes; (2) transactions in immovable property, except by banks formed for that purpose; (3) issuing bearer notes.	Fixed by Central Bank of Iran for all banks, foreign and domestic.	Exchange control is vested in the Central Bank of Iran. All transactions must take place through authorized banks only.

Central bank credit—access and cost—all banks, foreign versus domestic. If there is nominal access, is there nevertheless discrimination?	Bank examination—all banks, foreign versus domestic. What is the interval and nature of examination?	Cartel restrictions—against particular operations? Need for cooperation? Big versus little banks; foreign versus domestic.	Evenhandedness of application of regulation overall.
Central Bank may grant short-term credit to any bank, foreign or domestic, and discount commercial notes and drafts of short-term maturity. There is no discrimination.	There is no distinction between foreign or domestic banks. Auditors who may be chosen by the Central Bank, must prepare a yearly report. Banks may be examined at other times, at the discretion of the Central Bank of Iran.	The Central Bank of Iran may prohibit any bank, foreign or domestic from conducting one or more types of business.	

Italy*

Introductory Remarks

Under the Italian legislation governing banking, the areas of savings and the exercise of credit are considered functions of public interest of the greatest importance. Any banking enterprise therefore is subject to becoming an instrument of the public administration and its economic policies.

Once a bank has been licensed to operate in Italy, its treatment is equal, regardless of whether it is a domestic or foreign-owned bank. In fact at no time, except in the latter years of the Fascist regime, has there been any different treatment of such banks under law.

Yet, it should be borne in mind that with the legislation regulating banking, the Italian national policy in the field of monetary policies would prevail whenever private banking and credit institutions deviated from the general concept regulating them or acted contrary to the public interest.

1. Deposit Restrictions

The basic legislation of 1926 protecting credit and savings states that the limits of deposits, regardless of the manner in which they are accumulated, as a general rule, may not exceed by more than twenty times the amount of the entire paid up capital plus reserves. If this amount is exceeded, the credit institution or bank shall deposit the excess in cash, government securities or government-guaranteed securities with the Central Bank.

The laws do not provide restrictions on the deposits of resident nationals; yet, restrictions could be applied by Government supervising agencies in times of financial difficulties. For instance, a deposit requirement is applicable to outward transfers of resident-owned capital for direct investments, portfolio investments, financial loans, purchases of real estate, and personal capital movements. In such cases, the transferor must lodge a lira deposit equivalent to fifty percent of the amount in a noninterest-bearing account with the bank effecting the transfer. In addition, when foreign investments are transferred between residents against lira, the transferee shall be subject to deposit requirements.

All banks, domestic or foreign, once they are allowed to operate, may have access to savings deposits if it is provided in their charter.

Under the supervision of the Bank of Italy and the Interbanking Agreement there are no restrictions as to deposit soliciting. Due to such controls, however, actual competition loses its real meaning and all evolves to local convenience and similar factors influencing the public.

2. Reserve Requirements

Italian banking legislation, the pertinent special statutes, and the provisions of the Civil Code dealing with companies, public or private, require a legal reserve fund.

Article 2428 of the Civil Code states that a sum corresponding to at least one twentieth of the net annual profits shall be set aside to establish a legal reserve fund until such reserve fund reaches one fifth of the entire capital. It adds, however, that the provisions of the

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*Prepared by Kemal Vokopola, Senior Legal Specialist, European Law Division, Law Library, Library of Congress, October 1975.

special laws on banking shall remain unaffected. It is here that the banking legislation and all rules and norms enacted on banking take over in determining the amount of reserve funds. They prescribe that the formation of a reserve fund shall be obtained by the net profits in the measure of not less than 10 percent and until it reaches two-fifths of the capital.

The supervising Government agencies on credit and savings have in time of inflation imposed even stricter requirements to go as high as 70 percent.

From 1962 on, an obligatory reserve fund with the Central Bank could not be less than 15 percent in cash and the remainder in securities as specified by law or ordinances issued for the purpose by the Interministerial Committee on Credit and Savings.

3. Priority Investments—Government Securities, Housing, Development Banks, etc.

The Italian Banking Reform Law, enacted in 1936, provides for different regimes for the two major groups in the field of credit and savings. In the first group are the private banks collecting and providing short-term credit, and in the second are those credit institutions which operate in the field of medium and long-term credit and savings. The latter group consists of credit institutions incorporated under public law and banks of national interest closely associated with the banking activities of the Central Bank. Special public agencies have been created in Italy to operate in the area of investments, industrial development, housing, and so forth, as each is designated by law.

Thus, private banks may not become directly involved in such investing or in industrial and housing development, except by way of public credit institutions and the above-mentioned public entities specializing in these fields, such as the I.R.I. (Istituto Ricostruzione Industriale), I.M.I. (Istituto Mobiliare Italiano); and La Immoviliare Italiana.

A typical example of such involvement is that of the Banca del Credito Meridionale (Southern Credit Bank) which since the late twenties has been dealing in the development of credit in Southern Italy. This establishment was originally set up by the Bank of America, and after World War II, it was taken over by the First National City Bank of New York.

4. Credit Ceilings

In Italy during inflationary times the Interministerial Committee for Credit and Savings and the Central Bank first suggest and then, as necessary, impose restrictions on credit extensions or may end extensions of credit altogether in the interest of the financial well-being of the country. The Bank of Italy continues to impose these restrictions until the situation is relieved. Of course, in areas affecting international financial relations, the Italian supervisory agencies work hand in hand with other governments and international banking organizations mitigate such conditions.

5. Loan Restrictions

Loan restrictions, according to Italian banking legislation and practice, consist of fixing the limit between the amount of credit (loan) that a bank may give to a client and the economic potential

or patrimony of same. In other words, the concept of granting loans in proportion to the economic potentials of the borrower is a principle accepted by all types of banks.

Not all banking institutions in Italy do establish such an arithmetic ratio, however. According to scholars of banking laws and techniques and depending on the type of loan involved, banks may grant loans running from one tenth to one half of the patrimony, of the capital, or of the economic potential of a borrower.

6. Interest Rate Limits

Although interest rates may vary from bank to bank and from time to time according to the general financial and economic conditions in the country, etc., none of these interest rates from any type of bank may be applied against the dispositions issued for such purpose by the Interministerial Committee for Credit and Savings and the Bank of Italy. Article 32 of the Italian Banking Law provides the competent Government agencies with regulatory powers on this matter which make no distinctions between domestic and foreign banks.

7. Exchange Controls

Any transfer of currency or securities requires as a matter of law, authorization from the Treasury Department, the Bank of Italy, the Italian Exchange Office, and the Ministry of Foreign Trade. Inward and outward movements of nonresident capital is totally free, but loans of any kind from nonresidents to residents and from residents to nonresidents require specific authorization from the Ministry of the Treasury and of Foreign Trade. Exceptions are made with regard to long-term loans to O.E.C.D. countries and for short-term loans to E.E.C. member countries (up to one year and amounts not exceeding 250 million liras and also for medium-term loans not exceeding five years and amounts of 250 million; these loans need no authorization of any kind. Likewise, repayment of such loans may be made freely.

8. Central Bank Credit

Generally speaking, banks in Italy do not have a right to central-bank credit except for so-called discount storage agency bills. Yet central-bank funds are available to banks on a seasonal or emergency basis.

There are no access fees, nominal or otherwise, to be paid to the central bank. The central bank—in this instance, the Bank of Italy—has an open-door policy in regard to allowing other banks to borrow in accordance with the banking laws and regulations.

The Bank of Italy treats all banks, domestic or foreign, in the same manner. Restrictions are applied by this Bank when it wants to tighten the credit market or when other abnormal financial conditions exist as mentioned above.

9. Bank Examinations

Bank examinations in Italy occur on a regular yearly basis, without discrimination as to domestic versus foreign banks. But the Governor of the Bank of Italy, who presides over this public institution and

carries out the functions of the Interministerial Committee for Credit and Savings, may order additional examinations whenever he sees fit.

10. Cartel Restrictions

The cartel restrictions are well defined and elaborated upon in the Italian national banking legislation. Accordingly, unfair competition, different rates of interest, commissions, etc., may not take place.

Although a banking cartel existed in Italy, dating from the early twenties, under the supervision and guidance of the Bank of Italy, it has become a voluntary cartel later transformed by the intervention of the Bank of Italy into an interbanking agreement.

As far as it has been possible to ascertain from the information available, no restrictions resulting from such cartel or interbanking agreements have been carried out in a discriminatory way in Italy.

11. Evenhandedness of Application of Regulation Overall

A general survey of the banking legislation of Italy does not disclose any discrimination towards any banking or credit institution. Nor is it the Italian Government's general economic policy to discriminate unless banking activities are deemed contrary to the Italian national interest, in which cases the entire legal system would become operative. As far as the operation of American banking institutions in Italy are concerned, they have received favorable treatment where possible, especially after World War II and later on when American economic assistance was of great help to the development of the Italian economy.

Japan

BANKING

ANY DEPOSIT RESTRICTIONS

Limits on deposits of resident nationals—domestic currency versus foreign currencies, all banks, domestic banks versus foreign banks (a)	Limits on inflows on funds from abroad—all banks, foreign as opposed to domestic (b)	Foreign bank access to savings deposits (c)	Codes of fair competition impact on foreign banks of agreements restricting solicitation of deposits of other banks (d)
Resident nationals are free to make deposits in domestic or foreign banks either in local or foreign currency without any limits, while nonresidents are restricted.	Only domestic banks are free to receive capital inflows if such inflows are not longer than 1 yr.	Yes	Not prohibited, but discouraged to have such agreements.

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC

Direct reserve requirement—all banks, foreign versus domestic—requirement that deposits be kept with central bank or government agencies (a)	"Special deposits" (b)	Secondary reserves (c)	Liquidity ratios (d)
All banks including foreign banks are required to make deposits with the Central Bank.	Not required	Not required	Information not available.

JAPAN—Continued

BANKING—Continued

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC—Continued

Priority investments—government securities, housing, development banks, long-term loans, etc. all banks, foreign versus domestic.	Credit ceilings—either re domestic inflation or balance of payments.	Loan restrictions re classes of borrowers or uses of funds also structural restrictions (such as prohibitions against underwriting)—all banks, foreign versus domestic.	Interest rate limits—all banks, foreign versus domestic.	Exchange controls all banks, foreign versus domestic.
Any commercial bank including foreign bank is free to invest in the above categories.	Credit ceilings are imposed on Japanese banks only for the purpose of maintaining the sound development of Japanese banking business.	At present, no restrictions are imposed on domestic or foreign banks. Trust activities and underwriting are restricted.	The Minister of Finance is authorized to have the Policy Committee of the Bank of Japan establish the maximum interest rate of all banks including foreign banks. No other interest-fixing is allowed.	Domestic and foreign banks are subject to various exchange controls.

Central bank credit—access and cost—all banks, foreign versus domestic. If there is nominal access, is there nevertheless discrimination?	Bank examination—all banks, foreign versus domestic. What is the interval and nature of examination?	Cartel restrictions—against particular operations? Need for cooperation? Big versus little banks; foreign versus domestic	Evenhandedness of application of regulation overall.
Equally available to foreign and domestic banks at the same rate.	All banks including foreign banks must draw up a report on business affairs for each business year (from April to September and from October to March of the next year) and report it to the Minister of Finance. The business report usually contains an operational report, a balance sheet, income statement and surplus appropriate statement. Once in each business year, the auditors of a bank must draw up a certificate of inspection recording the result of their inquiries into the affairs of the bank and the state of its property, and keep the same at the head office. The Minister may, at any time, require a bank to give him reports dealing with business affairs or to produce a certification of inspection and/or other documents and records.	Any unreasonable restraint of trade and unfair business practice by all banks including foreign banks are prohibited under the antimonopoly law. More specifically, interest-fixing agreements among banks beyond the maximum rate determined by the Bank of Japan are prohibited under the extraordinary interest adjustment law. The law concerning control of unjust contracts relating to deposits bars any bank from concluding an agreement to obtain special pecuniary benefits. Special pecuniary benefits include interests, commissions, honorariums, and any other benefits which a person making deposits receives in connection with the deposit in question.	Like domestic banks, foreign banks are regulated by the banking law. Any foreign bank desiring to establish its branch office in Japan must obtain a license from the Minister of Finance. In granting a license, however, the Minister may attach conditions to it taking into consideration reciprocal arrangements with the country in question.

Lebanon

BANKING

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC

Direct reserve requirements—all banks, foreign versus domestic—requirement that deposits be kept with central bank or government agencies. (a)	"Special deposits" (b)	Secondary reserves (c)	Liquidity ratios (d)
There is no direct reserve requirement, but any bank, foreign or domestic, is required to build up a reserve fund by deducting 10 percent of the net profit of its exploitation in Lebanon. Branches of foreign banks operating in Lebanon are required, within 5 yrs from the day of notification of registration on the list, to lodge 50 percent of their own funds, in an interest-free blocked account with the Bank of Lebanon. This blocked account is non-deductible from the compulsory reserve—in built properties located in Lebanon of a value not exceeding 3,000,000 L.P., in Lebanese Treasury bills or in securities guaranteed by the State.	No	No	The Central Bank may periodically determine this ratio.

Priority investments—government securities, housing, development banks, longterm loans, etc. all banks, foreign versus domestic.	Credit ceilings—either re domestic inflation or balance of payments.	Loan restrictions re classes of borrowers or uses of funds also structural restrictions (such as prohibitions against underwriting)—all banks, foreign versus domestic.	Interest rate limits—all banks, foreign versus domestic	Exchange controls all banks, foreign versus domestic
No such priority investments exist under Lebanese law.	The Central Bank may periodically determine the credit ceilings without any discrimination between domestic and foreign banks.	None	9 percent for all banks.	No exchange control for all banks.

ANY DEPOSIT RESTRICTIONS

Limits on deposits of resident nationals—domestic currency versus foreign currencies, all banks, domestic banks versus foreign banks (a)	Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic (b)	Foreign bank access to savings deposits (c)	Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks (d)
No restrictions	No restrictions	No restrictions	No restrictions.

Lebanon—Continued

BANKING—Continued

ANY DEPOSIT RESTRICTIONS—Continued

Central bank credit—access and cost—all banks, foreign versus domestic. If there is nominal access, is there nevertheless discrimination?	Bank examination — all banks, foreign versus domestic. What is the interval and nature of examination?	Cartel restrictions—against particular operations? Need for cooperation? Big versus little banks; foreign versus domestic	Evenhandedness of application of regulation overall
Central Bank credit has access to domestic and foreign banks. But the Central Bank shall not be held obliged, as a matter of principle, to grant credit to banks. It does so insofar as it deems that such action contributes to the general interest.	There is no distinction between domestic and foreign banks. The banks' supervisory commissioners are required to establish a detailed annual report on the activities of each bank. In the course of the year, they must report immediately to the responsible authorities of the bank where they have assumed supervision any irregularities they may have noticed. As for the examination done by the Central Bank, responsible bank directors may be required to furnish all information, clarifications, or justifications that banks are supposed to submit. Or, when deemed necessary, assessors may be sent by the Central Bank to verify the situation.	There are no restrictions of any kind, since the banks operate freely within the context of a laissez-faire establishment determined by market forces and by competition.	There is no such thing as evenhandedness at all in the application of regulation, however, in a political crisis, the Government may resort to measures of a nature to secure stability in the existing banking structure.

Mexico

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(*a*) Limits on deposits of resident nationals—domestic currency vs foreign currencies—all banks, domestic banks vs foreign banks: None.

(*b*) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic: None.

(*c*) Foreign bank access to savings deposits: None.

(*d*) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks: None.

2. Reserve requirements—all banks, foreign vs domestic.

(*a*) Direct reserve requirements—all banks, foreign vs domestic—requirement that deposits be kept with central bank or government agencies

All banks shall keep their reserves in the Bank of Mexico.

(*b*) "Special deposits"

(*c*) Secondary reserves

(*d*) Liquidity ratios: Subject to the regulation of art. 11–IV General Law on Credit Institutions.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs domestic

Priority investments subject to regulations of June 8, 1951 (P.O., June 20) and subject to approval by the National Commission on Securities.

4. Credit ceilings—either re domestic inflation or balance or payments

Subject to the regulations of art. 11-sect. VIII of the General Law on Credit Institutions.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs domestic

Funds are subject to loan restrictions under art. 10 of the General Law on Credit Institutions.

6. Interest rate limits—all banks, foreign vs domestic

All banks subject to the regulations issued by the Bank of Mexico.

7. Exchange controls—all banks, foreign vs domestic

All banks subject to the regulations issued by the Bank of Mexico.

8. Central bank credit—access and cost—all banks, foreign vs domestic If there is nominal access, is there nevertheless discrimination?

All banks have access to credit from the Bank of Mexico.

9. Bank examination—all banks, foreign vs domestic What is the interval and nature of examinations?

All banks subject to inspection by the Banking Commission at least once a year.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs little banks; foreign vs domestic

11. Evenhandedness of application of regulation overall. Yes.

NETHERLANDS*

In the Netherlands banking is regulated by the Banking Law (Law of April 23, 1948, *Staatsblad* I 166, as amended) and the Credit Control Law (Law of June 21, 1956, *Staatsblad* 427, as amended). The Exchange Decree (Decree of October 10, 1945, *Staatsblad* F 222, as amended) regulates the exchange aspects of banking. These laws, with their implementing decrees, give only very general rules.

The specifics of banking are regulated mainly by directives issued by the Netherlands Bank. These directives are frequently changed and are not available in the Library of Congress. Moreover, gentlemen's agreements exist between the Netherlands Bank and the individual banks, and these are not published.

A new Credit Control Law in draft form has been discussed in Parliament since 1970. Once this law is passed, it will change some of the regulations and practices now in effect.

The present Credit Control Law states in Article 21 that the Law applies equally to domestic banks and to branches of foreign banks in the Netherlands. Therefore, there is no discrimination in the Netherlands between domestic and foreign banks.

Since the Netherlands Bank through the Netherlands Embassy will supply a detailed report answering the questions posed in the present request, this report will be limited to brief answers because

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needed information is not yet available in the Library of Congress or may be outdated. The report from the Netherlands Bank will be forwarded as soon as available.

1. Deposit Restrictions

(*a*) *Limits on Deposits of Resident Nationals.*—Information not yet available.

(*b*) *Limits on Inflows of Funds from Abroad.*—Information not yet available.

(*c*) *Foreign Bank Access to Savings Deposits.*—Information not yet available.

(*d*) *Codes of Fair Competition.*—All banks must comply with the general practice concerning fair competition.

2. Reserve Requirements

(*a*) *Direct Reserve Requirements.*—Van Nierop in his "*Schets van het bankwezen*" (1972) notes that since 1967 the percentage of all means entrusted to the banks deposited with the Netherlands Bank is zero.

(*b*) "*Special Deposits*".—Information not yet available.

(*c*) *Secondary Reserves.*—Information not yet available.

(*d*) *Liquidity Ratios.*—According to van Nierop, these ratios are as follows: 30 percent for demand deposits, 10 percent for deposits of 1 month to 3 years, and 5 percent for deposits of a longer duration.

3. Priority Investments

Information not yet available.

4. Credit Ceilings

There are credit restrictions, but according to van Nierop it has not been applied since 1967.

5. Loan Restrictions

See Appendix.

6. Interest Rate Limits

INTEREST RATE STRUCTURE

[Percent per annum]

	End 1961	End 1970	End 1971	End June 1972
Deposit rates:				
Demand deposits—commercial banks	0.50	1.30	1.23	0.66
Interest-bearing chequing accounts		[1] 2.63	[1] 2.63	[1] 1.63
Savings deposits—commercial banks	3.25	4.66	4.59	4.13
Savings deposits—2 years, notice		7.11	6.66	6.05
Savings deposits—4 years, notice		8.04	7.15	6.54
Money market rates:				
Treasury paper, 3 months	1.34	6.08	3.99	1.94
Treasury paper, 3 years	2.15	6.89	5.81	5.32
Three-month loans to local authorities	2.21	7.13	5.58	2.56
Capital market yields:				
Government bonds	4.15	7.77	7.79	7.56
Corporate bonds	n.a.	8.01	7.98	7.47
Debt certificate loans	n.a.	9.00	8.16	7.76
Mortgage loans	5.25	9.50	9.38	8.50
Yields on shares:				
Dutch international concerns	2.80	5.00	6.10	5.20
Domestic shares	3.60	4.70	4.70	3.60

[1] Paid on lowest half-monthly balance.

Source: Netherlands Banks, Annual Reports and Quarterly Statistics.

7. Exchange Controls

The International Monetary Fund in its *26th Annual Report on Exchange Restrictions* 1975 states that "exchange control is administered by the Netherlands Bank on behalf of the Ministers of Foreign Affairs, Finance, Economic Affairs, and Agriculture. All commercial banks of any importance are authorized to handle foreign exchange transactions within the scope of general and special licenses granted by the licensing authorities."

8. Central Bank Credit

Information not yet available.

9. Bank Examination

Van Nierop states the banks must report their situation monthly to the Netherlands Bank, and they must supply any information it requests. If the Netherlands Bank finds that a bank does not follow directives given, or if it notices that a situation is developing that is, or could be, dangerous to the solvability or liquidity of a banking institution, the Netherlands Bank may advise that bank to alter its conduct. If the bank does not follow this advice, the Netherlands Bank may make the advice public, unless an appeal is made to the Crown by the bank concerned.

10. Cartel Restrictions

Article 13, paragraph 1 under c, of the Credit Control Law states that registered credit institutions may not merge with other enterprises or institutions without a statement from the Netherlands Bank that it does not have any objections to such a merger.

The Netherlands Bank may refuse to give a "statement of no objections" if it thinks that such a merger would lead to an undesirable development in the credit system or would be contrary to a healthy banking policy. The bank concerned may appeal this decision to the Minister of Finances.

11. Evenhandedness of Application of Regulation Overall

Information not yet available.

APPENDIX FOR NETHERLANDS

EXCERPT FROM INTERNATIONAL MONETARY FUND, TWENTY-SIXTH ANNUAL REPORT ON EXCHANGE RESTRICTIONS, 1975, WASHINGTON, D.C.

NETHERLANDS

CAPITAL

Inward and outward capital transfers and the shifting of foreign-owned capital within the Netherlands from one asset to another are subject to control, but general licenses have been granted for many types of capital transaction. Borrowing and lending abroad by bank and nonbank residents (with the exception of specified banking operations and of the granting of credit in respect of imports or exports of commodities) are restricted for reasons of capital market policy and, as far as borrowing is concerned, either to control the contracting of foreign debt by local authorities or for reasons of monetary and reserve policy. Apart from guilder issues on the Netherlands capital market (see below), most lending to nonresidents is liberally permitted. Borrowing abroad by nonbank residents is at present restricted, in principle, to amounts used for investments abroad (which is considered to include the purchase of ships and aircraft abroad). Borrowing from nonresident banks by private industry and other nonbank residents is not normally permitted, and loans from other nonresident sources (except suppliers' credits with a maturity customary in the trade concerned) are subject to individual approval; licenses for borrowing abroad from nonbank nonresidents are granted on application, provided that the funds are used for direct investment abroad or for lending to nonresidents, but the Netherlands Bank, in principle, does not permit nonbank residents to take up financial credits abroad other than loans with a fixed maturity of at least five years from nonresident enterprises belonging to the same concern as the borrower. There is a general license for loans up to f. 100,000 taken up by residents from nonresidents, provided that a resident in any calendar year does not borrow more than f. 100,000 from the same nonresident. A similar license has been issued for lending to nonresidents. Furthermore, a general license permits authorized banks to grant financial credits for up to 12 months to nonbank nonresidents and for any period to nonresident banks; authorized banks are on application granted licenses to lend to nonbank nonresidents for periods in excess of 12 months.

Special regulations exist for borrowing and lending between head offices (in the Netherlands or abroad) of multinational corporations and their branches and subsidiaries; at present, the Netherlands Bank does not permit financial loans to be taken up abroad within a multinational corporation, except as indicated above. Nonbank residents are not normally permitted to purchase foreign treasury bills or other foreign short-term instruments. Purchases of Netherlands treasury paper and guilder bank acceptances by nonresidents, including central banks, are prohibited. Capital transactions, whether freely permitted or not, must be notified to the Balance of Payments Department of the Netherlands Bank; this is true also of all import and export credits for periods in excess of one year and of advance payments in excess of f. 250,000 to be received for exports.

Capital issues in the Netherlands on behalf of nonresidents are restricted. During the last ten years or so, international financial institutions and the authorities of the nonmetropolitan areas of the Kingdom of the Netherlands have been the only nonresidents allowed to make bond issues denominated in guilders. Such issues are individually licensed by the Netherlands Bank in accordance with the prospects for the domestic capital market and the balance of payments. The Netherlands Bank, subject to certain conditions, allows nonresidents access to the debt certificate sector of the domestic capital market (the market for *onderhandse leningen*). Authorized banks may on request be licensed to lead syndicates for the issue of medium-term Euro-guilder notes, the proceeds of which normally must not be spent in the Netherlands.

Unless special permission to the contrary is obtained from the Netherlands Bank, authorized banks' foreign liabilities must not exceed their foreign claims, i.e., they are not allowed to maintain a negative net external position. In observing this regulation, each bank has a leeway of f. 5 million; the calculation of the net foreign position is based on the foreign position in all currencies, including guilders, and on the sum of short-term and long-term assets and liabilities. Subject to this limitation, banks may freely accept demand deposits from nonresidents, in domestic or foreign currency, as well as time deposits in foreign currency. However, subject to minor exemptions for physical persons, banks are prohibited from paying interest on nonresident-held guilder demand deposits and from accepting guilder time deposits from nonresidents.

Inward direct investment by nonresidents and local borrowing by nonresident-owned or nonresident-controlled companies for use in the Netherlands are subject to license, which is usually granted. The transfer abroad of the proceeds from the sale or liquidation of nonresident investments in industrial enterprises and other businesses established in the Netherlands is freely permitted. Nonresidents may freely purchase real estate in the Netherlands for personal use or investment. Direct investment abroad by residents is authorized on application.

Transactions between residents and nonresidents in foreign securities and domestic securities take place at official market rates and, with minor exceptions, are unrestricted; the regulations concerning securities are not applicable to treasury bills or certificates of deposit. Residents may freely purchase officially listed securities abroad, with the exception of guilder-denominated Euro-bonds issued by nonresidents; foreign bonds denominated in guilders or otherwise linked to the parity of the Guilder may be purchased freely only when listed on the Amsterdam stock exchange. The foreign currency proceeds from securities sold abroad by residents must be depositied with an authorized bank or securities broker in the Netherlands and may be sold or retained. The proceeds of securities sold in the Netherlands by nonresidents are transferable in any currency, irrespective of the seller's country of domicile or residence. Nonresidents may have their securities, Netherlands or foreign, exported to them; for the exportation of listed guilder bonds an individual authorization is required, which is granted upon application. Domestic and foreign securities held abroad by a resident are subject to a deposit requirement, but the Netherlands Bank grants exemptions on application; securities held in the Netherlands are not subject to deposit.

Residents may freely purchase real estate abroad. Gifts and donations to nonresidents are free. Emigrants may export any amount in foreign and domestic currency. They acquire the status of nonresidents upon leaving the Netherlands, provided that they have declared their intention to settle abroad for more than three years, and may upon departure have remitted to them their total assets in the Netherlands.

Payments to nonresident beneficiaries may be made freely in respect of inheritances from estates being distributed in the Netherlands.

SUPPLEMENTARY REPORT ON NETHERLANDS BANKING

As indicated earlier, completion of this survey was dependent upon the receipt of information unavailable in the Library's sources. This information has now been obtained from the Netherlands Bank through the Netherlands Embassy and is incorporated in this supplementary report.

Before presenting these data, a few points need to be emphasized The Netherlands Bank is the central bank, and it stresses the fact, emphasized in the previous report, that there is no discrimination between domestic and foreign banks in the Netherlands. Possible future developments have been indicated where pertinent. These developments depend on the passage of the Credit Control Bill which has been introduced again in Parliament in 1975 in a revised form.

1. Deposit Restrictions

(*a*) *Limits on Deposits of Resident Nationals.*—There are no limits on deposits of resident nationals in either domestic or foreign currency.

(*b*) *Limits on Inflows on Funds from Abroad.*—Since March 9, 1972, residents have not been permitted to pay any interest on guilder demand deposits of nonresidents, unless this involves the customary rate of interest paid on deposits of natural persons not exceeding at present f 100,000.

Normally no permission is granted to residents (banks and nonbanks) to take out loans abroad. An exception may be made for funds to be used only for direct investment abroad or for financial credits taken up by residents from nonresidents (notes—company loans) for a fixed term of not less than 5 years.

By general permission, loans may be taken out from nonresidents up to f 100,000 per nonresident per year.

Authorized banks may accept time-deposits in foreign currency from nonresidents.

Guilder payments from nonresidents may not be accepted on time deposit, except on savings accounts of natural persons. Total accumulated balances on such savings accounts may not exceed f 100,000.

(*c*) *Foreign Bank Access to Savings—Deposits.* There are no restrictions for foreign banks in regard to access to savings deposits.

(*d*) *Codes of Fair Competition.*—According to the Law on Economic, Competition (Wet Economische Mededinging) of June 28, 1956e every competition arrangement has to be communicated to thh Minister of Economic Affairs. In the banking field there are no suct competition arrangements.

2. Reserve Requirements

(*a*) *Direct Reserve Requirements.*—There is a cash reserve agreement with the banks having deposit liabilities of more than f 25 million under which balances with the central bank must be held in relation to the bank's short-term (domestic and foreign) guilder obligations. The agreement is only applied when the money market is easy.

(*b*) *Special Deposits.*—There are no special deposits.

(*c*) and (*d*) *Secondary Reserves and Liquidity Ratios.*—The liquidity requirements have been in force since July 1973. There is a system of indirect credit control under which the banks have to hold certain liquid assets, primarily treasury paper, in relation to their domestic deposit liabilities.

3. Priority Investments

There are no priority investments.

4. Credit Ceilings

Credit ceilings are not in force anymore. See 2 (c) and (d).

5. Loan Restrictions

There are no loan restrictions.

6. Interest Rate Limits

The Dutch interest rate structure was shown in the chart supplied in the earlier report. It should be noted that the rates have gone up

in line with the global trends since the last reported year 1972. There are no interest rate limits in the Netherlands, as they are incompatible with the Dutch open economy.

7. Exchange Controls

Exchange controls are applied without distinction between domestic and foreign banks established in the Netherlands.

8. Central Bank Credit

The banks have access to the central bank at official rates up to an amount related to their deposit liabilities.

9. Bank Examination

The same procedure concerning bank examination is in effect for domestic and foreign banks alike, and there are no intervals for examinations. Examinations serve the purpose of checking the solvency and liquidity of the banks.

10. Cartel Restrictions

The general setup of the Dutch cartel legislation is that cartels are permitted unless specifically forbidden. Cooperation between the banks takes place in the Dutch Bankers' Association (Nederlandse Bankiersvereniging) of which domestic and foreign banks are members. However, for official mergers a "statement of no objection" from the Netherlands Bank is required.

11. Evenhandedness of Application of Regulation Overall

All regulations are applied evenhandedly.

Panama

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(*a*) Limits on deposits of resident nationals—domestic currency vs. foreign currencies, all banks, domestic banks vs. foreign banks.

No restrictions, except that the public sector makes its deposits in the National Bank of Panama.

(*b*) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

No limits (all banks have the right to be the beneficiary of a contingent credit given by a foreign bank, or its parent company, in U.S. dollars, in the amount of 10 percent of total assets.

(*c*) Foreign bank access to savings deposits.

Yes.

(*d*) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs. domestic.

(*a*) Direct reserve requirements—all banks, foreign vs. domestic—requirement that deposits be kept with central bank or government agencies.

All banks must keep a "legal reserve" (no less than five percent, nor more than 25 percent of the total local deposits. No less than 30 percent of the reserve shall consist of legal tender of Panama, held by each bank. The remainder may consist of demand

deposits in the National Bank of Panama, or bills of the National Treasury, but the Commission may change this rule.

(*b*) "Special deposits".

(*c*) Secondary reserves.

All banks must keep a "capital reserve" (law 93, Nov. 23, 1974).

(*d*) Liquidity ratios: minimum net balance of liquid assets: 35 percent.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs. domestic.

No discrimination. No investment priorities, except that non-mortgage banks must invest no less than 50 percent of local savings deposits in mortgaged housing loans (law 104, Oct. 4, 1973).

4. Credit ceilings—either re domestic inflation or balance of payments.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

Some special types of loans are managed by public institutions such as the National Mortgage Bank, the Agricultural Development Bank (*Banco de Desarrollo Agropecuario*).

6. Interest rate limits—all banks, foreign vs. domestic.

No limits on foreign and local deposits. The Commission shall fix maximum interests on savings deposits (with a minimum difference in favor of mortgage banks).

7. Exchange controls—all banks, foreign vs. domestic.

No.

8. Central bank credit—access and cost—all banks, foreign vs. domestic. If there is nominal access, is there nevertheless discrimination?

No central bank credits. Equal treatment to private banks by the National Banking Commission.

9. Bank examination—all banks, foreign vs. domestic. What is the interval and nature of examinations?

Official banks have special control system. All private banks are examined on a regular basis. Every two years: examination of financial status and solvency by the Commission. Four times a year: a statement of credit facilities and other assets.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks; foreign vs. domestic.

Only the general prohibition in the Constitution of 1972 against restrictions on free trade and competition.

11. Evenhandedness of application of regulation overall.

Yes.

Peru*

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(*a*) Limits on deposits of resident nationals—domestic currency vs. foreign currencies, all banks, domestic banks vs. foreign banks.

*Peru is a member of the Andean Pact and as such has adhered to the Cartagena Resolutions 24 and 37 on common treatment of foreign investments, which precludes new entries of foreign banks and sets forth a three-year term for termination of operations thereof. However, branches and affiliates of foreign banks are exempted.

Savings ceilings: *soles* 150,000.00 and 500,000.00 for individuals and corporations, respectively.

(*b*) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

Controlled. Restrictions depend on state of national reserve of international funds.

(*c*) Foreign bank access to savings deposits.

Restricted.

(*d*) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs. domestic.

(*a*) Direct reserve requirements—all banks, foreign vs. domestic—requirement that deposits be kept with central bank or government agencies.

100 percent of paid capital; 15 percent of deposits and accounts receivable "at sight," six percent of term deposits and accounts receivable.

(*b*) "Special deposits".

As determined by Central Reserve Bank in each case. 10 percent of investment to cover business risks.

(*c*) Secondary reserves.

Foreign branches and subsidiaries are required to maintain permanent minimum investment of 60 million *soles* in the country.

(*d*) Liquidity ratios.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs. domestic.

4. Credit ceilings—either re domestic inflation or balance of payments.

Yes, to be determined by Central Reserve Bank, periodically.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

No underwriting allowed to existing foreign banks.

6. Interest rate limits—all banks, foreign vs. domestic.

Controlled by Central Reserve Bank.

7. Exchange controls—all banks, foreign vs. domestic.

Yes.

8. Central bank credit—access and cost—all banks, foreign vs. domestic. If there is nominal access, is there nevertheless discrimination?

To be determined by Central Reserve Bank.

9. Bank examination—all banks, foreign vs. domestic. What is the interval and nature of examinations?

As required. Regularly and at any time by *Superintendencia de Bancos*.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks, foreign vs. domestic.

Foreigners can only own up to 20 percent of former foreign banks. No participation is allowed on national banks.

11. Evenhandedness of application of regulation overall.

Uncertain.

Philippines

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re: None.

(*a*) Limits on deposits of resident nationals—domestic currency vs. foreign currencies, all banks, domestic banks vs. foreign banks.

(*b*) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

(*c*) Foreign bank access to savings deposits.

(*d*) Code of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs. domestic.

(*a*) Direct reserve requirements—all banks, foreign vs. domestic—requirement that deposits be kept with central bank or government agencies.

All banks must have reserve requirements deposited in the Central Bank.

(*b*) "Special deposits".

(*c*) Secondary reserves.

(*d*) Liquidity ratios: 20 percent for commercial banks; eight percent for savings banks; time deposits for all banks with remaining maturity of two years are exempt.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs. domestic.

Agrarian reform and agricultural credits have investment priorities over Government securities. Branches must invest 75 percent of their accumulated deposits in the region in which they are located.

4. Credit ceilings—either re domestic inflation or balance of payments.

Stockholders are subject to credit ceilings; on real estate security loans shall not exceed 50 percent of the total savings and time deposits of the banks. Loans on real estate shall not exceed 70 percent of its value; on chattels, 50 percent of said value.

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

Among others, no loan on the security of real estate shall have a maturity in excess of 15 years, except those for house building, which may be up to 20 years; there are other restrictions on loans secured by pledge, or by livestock.

6. Interest rate limits—all banks, foreign vs. domestic.

All banks subject to regulation. Commercial banks 11 percent on two years maturity; 14 percent over two years maturity; savings banks, 11½ percent on two years maturity; 14 percent over two years maturity; maximum interest rate on time deposit withdrawn before maturity is 8½ percent and nine percent for commercial banks and savings banks, respectively.

7. Exchange controls—all banks, foreign vs. domestic.

All banks subject to regulations on exchange control.

8. Central bank credit—access and cost—all banks, foreign vs. domestic. If there is nominal access, is there nevertheless discrimination?

All banks have access to it. Yes, foreign banks are limited to ½ of the level of their respective "net due to head office and branches outside of the Phillippines" account.

9. Bank examination—all banks, foreign vs. domestic. What is the interval and nature of examinations?

All banks subject to examination by the Central Bank (Central Bank Act, sect. 25). Periodical examination, usually once a year or when deemed expedient.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks; foreign vs. domestic.

11. Evenhandedness of application of regulation overall.

Yes.

Singapore

BANKING

ANY DEPOSIT RESTRICTIONS

Limits on deposits of resident nationals—domestic currency versus foreign currencies, all banks, domestic banks versus foreign banks (a)	Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic (b)	Foreign bank access to savings deposits (c)	Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks (d)
or resident nationals, ACU deposits are limited to a maximum of S$3,000,000 for companies, and to S$100,000 for individuals.	No limits	Same as domestic banks	No agreements.

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC

Direct reserve requirements—all banks, foreign versus domestic—requirement that deposits be kept with central bank or government agencies (a)	"Special deposits" (b)	Secondary reserves (c)	Liquidity ratios (d)
All banks are required to keep 20 percent of liabilities as direct reserves, 10 percent in primary reserves and 20 percent in total. A minimum cash balance of 6 percent of total deposits must also be maintained with the MAS. Local banks are also required to transfer 50 percent of net annual profits to their reserve fund if the reserve fund is less than 50 percent of paid up capital, and to transfer 25 percent of net profits if the reserve fund is 50 percent but less than 100 percent of paid up capital. Even where the reserve fund is 100 percent of paid up capital, the banks are required to transfer 5 percent of net annual profits to the reserve fund. Foreign banks are exempted from this provision if the MAS deems their aggregate reserve fund to be adequate.	None; special deposit requirement was abolished in March 1974.	10 percent primary liquid assets and 20 percent total liquid assets must be held.	Total liquid assets of 20 percent of deposits must be maintained; in computing this ratio, foreign balances and Treasury bills are excluded.

Singapore—Continued

BANKING—Continued

RESERVE REQUIREMENTS—ALL BANKS, FOREIGN VERSUS DOMESTIC—Continued

Priority investments—government securities, housing, development banks, long-term loans, etc., all banks, foreign versus domestic.	Credit ceilings—either re domestic inflation or balance of payments.	Loan restrictions re classes of borrowers or uses of funds also structural restrictions (such as prohibitions against underwriting)—all banks, foreign versus domestic.	Interest rate limits—all banks, foreign versus domestic.	Exchange controls all banks, foreign versus domestic.
All commercial banks are required to keep part of their mandatory liquidity reserves in Treasury bills and other short-term government obligations and are encouraged through tax concessions to buy longer-term government bonds.	See next column	Banks are prohibited from granting advances, loans, credit facilities in excess of 60 percent of capital funds, unless approval has been given by the MAS; in no case may the amount exceed 100 percent of the capital funds. There are exceptions, such as transactions with the government. Loans secured by immovable property are also limited to 30 percent of the bank's deposits in Singapore on the security of immovable property for the purpose of purchasing, improving, or altering the immovable property. In certain cases, this limit may be raised to 60 percent of deposits.	No limits—all rates have been freed.	MAS approval is required for the import of bank notes, Treasury bills, certificates of title of any security, and for the export of postal orders, Treasury bills, gold, certificates of title of any security, assurance policies, bills of exchange or promissory notes for currencies of nonscheduled territories, and unauthorized travellers' checks.

Central bank credit—access and cost—all banks, foreign versus domestic. If there is nominal access, is there nevertheless discrimination?	Bank examination — all banks, foreign versus domestic. What is the interval and nature of examination?	Cartel restrictions—against particular operations? Need for cooperation? Big versus little banks; foreign versus domestic	Evenhandedness of application of regulation overall
No discrimination; equal access.	All banks are liable to inspection by the MAS, from time to time, under conditions of secrecy. Investigation can be made of the books, accounts, and transactions of the bank, if MAS has reason to believe that the bank is carrying on business detrimental to the interests of its depositors and other creditors, or has insufficient assets to cover its liabilities to the public, or is contravening the provision of the Banking Act. The interval of routine inspections varies according to availability of MAS staff and is generally not more than once a year	No cartel restrictions	Excellent.

Spain

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re: None.

(*a*) Limits on deposits of resident nationals—domestic currency vs. foreign currencies, all banks, domestic vs. foreign banks.

(*b*) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

(*c*) Foreign bank access to savings deposits.

(*d*) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs. domestic.

(*a*) Direct reserve requirements—all banks, foreign vs. domestic—requirement that deposits be kept with central bank or government agencies.

All banks subject to regulations of decree-law 56 of Dec. 6, 1962 (*Boletin Oficial*, Dec. 7, 1972).

(*b*) "Special deposits".

(*c*) Secondary reserves.

(*d*) Liquidity ratios: Regulated by Order of the Ministry of Finance of Jan. 26, 1963 (B.O., Feb. 8, 1963), it shall be established within a minimum limit of 10 percent and a maximum limit of 20 percent.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks foreign vs. domestic.

All banks are subject to priority investments under law of Dec. 26, 1958.

4. Credit ceilings—either re domestic inflation or balance of payments.

For loans of more than 18 months, no more than 25 percent of the total deposits (Order of July 21, 1969).

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

Subject to regulation by decree 702 of Apr. 26, 1969 and Order of Apr. 28, 1969.

6. Interest rate limits—all banks, foreign vs. domestic.

All banks subject to regulation by the Ministry of Finance. Decreto Ley 18, June 7, 1962 (B.O., June 13, 1962), and Order of Mar. 24, 1972 (B.O., Apr. 1, 13).

7. Exchange controls—all banks, foreign vs. domestic.

All banks subject to regulations issued by Order of July 28, 1962 (B.O., Aug. 4).

8. Central bank credit—access and cost—all banks, foreign vs. domestic. If there is nominal access, is there nevertheless discrimination?

All banks have access to credit from the Bank of Spain, usually at 20 percent.

9. Bank examination—all banks, foreign vs. domestic. What is the interval and nature of examinations?

All banks subject to examination by the *Banco de España*. Periodical and extraordinary.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks; foreign vs. domestic.

11. Evenhandedness of application of regulation overall.

Yes.

SWEDEN*

The Joint Economic Committee study of 1967 entitled "Economic Policies and Practices, Paper No. 10, Foreign Government Restraint on United States Bank Operations Abroad" does not cover Sweden. In fact, the 1967 study expressly says in its tables that the questions are not applicable to Sweden, and the study further states on pages 13–14:

> Swedish banking law is very specific in stating that a bank's founders, its directors and its stockholders must be Swedish citizens, thus effectively impairing foreign banking in that country . . . While Swedish prohibitions against foreign banks are a matter of long standing, these prohibitions are, in fact, matters of [statutory] law that could be changed . . .

Such a change has not occurred. The Swedish Banking Act of 1955 was very substantially amended in 1968, and a number of relatively minor amendments have been added since then. However, the Act, as amended, is still very explicit in making banking in Sweden the prerogative of Swedish nationals, and there seem to be no signs that the Act will be amended in this respect within the near future. Consequently, the 1967 JEC study is still completely up-to-date as far as far as Sweden goes.

SWITZERLAND**

Freedom of trade is guaranteed in Switzerland by the Swiss Federal Constitution. This country traditionally has a strong free-market economy with a free enterprise system, and its import controls have been kept to a minimum. There are no specific tariff preferences or incentives, and import restrictions or import licenses are limited to some agricultural commodities and a few other items. Switzerland has had no foreign exchange controls except for transactions with a few countries. Only recently, because of the international monetary crisis, has the Government been forced to place certain restrictions on the freedom of trade.

Business organizations, including banks, are regulated by the Swiss Code of Obligations which places some restrictions on establishing a foreign-controlled corporation. Section 711 requires that if one person is the sole director, he must be a Swiss citizen and domiciled in Switzerland. If there are several directors, the majority of them must be Swiss citizens domiciled in Switzerland. Any person doing business in Switzerland must first secure a resident permit authorizing him to work.

In order to conduct business operations, banks must have a license issued by the Federal Banking Commission and must be registered

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*Prepared by Dr. Finn Henriksen, senior legal specialist, European Law Division, Law Library, Library of Congress, October 1975.

**Prepared by Dr. Alois Bohmer, senior legal specialist, European Law Division, Law Library, Library of Congress, October 1975.

in the Register of Commerce. The license to establish a bank which is to be organized under Swiss law and subject to a controlling foreign influence is dependent on the condition that reciprocity is granted by the country where the main bank has its residence or registered office. The bank to be established must give its assurance to the National Bank that the Swiss credit and monetary policies will be protected. The same applies for approval to establish a registered office, branch office, or agency of a foreign or foreign-controlled bank and for approval to appoint the permanent representative of a foreign bank. Foreign banks must provide for each independently operated office an endowment capital of at least 2 million SwF for the control of imports, exports, and payments. The Swiss National Bank is the executive authority in matters of currency.

In December 1972, the Swiss Government passed legislation necessary to enact the following measures aimed at slowing inflation: limitation of the credit extension of commercial banks to a certain annual growth rate; a change of banks' minimum reserve requirements for foreign and domestic funds; further limitations of new issues in the capital market; export deposits; changes of depreciation allowances; restrictions on new construction; and surveillance of prices, wages, and dividends. All of these measures can be applied whenever necessary and to the degree deemed most appropriate at the time.

1. Deposit Restrictions

There are no legal restrictions on the deposits of resident nationals, but an approval by the Swiss National Bank is required for deposits made for nonresidents by Swiss nationals.

Banks are not permitted to pay interest on Swiss Franc deposits received from nonresidents (*Ausländische Gelder*). In fact, they must charge a commission ("negative interest") at the rate, at present, of 10 percent per calendar quarter on any deposits made after October 31, 1974, that are held by nonresidents. This provision has been frequently changed.

Access to information about savings deposits, including also such by nonresidents, would be contrary to bank secrecy provisions which prohibit banks and bankers from disclosing any information acquired in the course of their business (professional secrecy). Section 47 of the Banking Law of 1934, as amended in 1971, attaches criminal sanctions to any breach of such secrecy.

Banks must refrain from misleading or blatant advertising of their Swiss branches or institutions. The Federal Council may limit or even completely forbid solicitation for credits, installment sales, client accounts, credit cards, and the rental of movables.

2. Reserve Requirements

Under the Banking Law (Sec. 5) all banks must transfer at least one-twentieth of their yearly net profits to a reserve fund designated to cover losses and permit write-offs. The transfers must be effected until this fund amounts to one-fifth of the paid-in capital or, in the case of banks which no paid-in capital, to one-twentieth of the deposits.

To slow down inflation, the Federal Council has been authorized to order every bank to keep an interest-free deposit (*Mindestguthaben*) with the National Bank in an amount to be determined by the percentage of growth and the level of various types of a bank's liability.

This deposit may be doubled in the case of liabilities against creditors domiciled abroad. Moreover, the National Bank has been authorized to order banks to balance their foreign currency positions daily.

Banks must maintain adequate ratios between their own resources and their total liabilities, and between their liquid assets and their short term liabilities. The Implementing Ordinance spells out the percentage ratios of readily available resources and of easily disposable assets which are to maintained at all times.

3. Priority Investments

Foreign investment funds are subject to special regulations. Banks and other financial intermediaries must refrain from investing foreign funds in Swiss securities, foreign securities denominated in Swiss Francs, and mortgages on Swiss real estate, with certain exceptions concerning nonresidents. The physical importation and exportation of Swiss and foreign securities are unrestricted.

Excessive liquidity and inflation has made house, apartment, and land prices soar and set off a construction boom fed by Italian and German money. Therefore, at the end of 1972, the Government curtailed investments in the construction industry by forbidding builders to carry out most of their intended construction and by tightening credit. As a result of the new controls and a squeeze on credit, the construction industry has been hard hit. However, these limitations were eased or rescinded in 1974 and 1975.

4. Credit Ceilings

At the end of 1972, to help to cool off the boom in the construction industry, the Federal Assembly authorized the Federal Council to impose limitations on the domestic credits of banks by binding them to a certain annual growth rate fixed by the Swiss National Bank. In cases where credit was to be used abroad, exceptions could be made by the National Bank. In hardship cases, the National Bank could approve additional quotas. However, after investment activity in this industry had slowed considerably and demands arose for a relaxation of credit restraints, the Government repealed the credit limitations as of May 1, 1975.

5. Loan Restrictions

Borrowing by residents from nonresidents in either domestic or foreign currency requires the prior approval of the Swiss National Bank. Although approval is normally granted, some exceptions are made. A loan to a nonresident, when it exceeds 10 million SwF and has a maturity of 12 months or more, also requires prior approval. All proposed first placings of medium-term negotiable papers (notes, certificates of deposit, etc.) in amounts of 3 million SwF or more must be submitted to the National Bank for examination. All capital export denominated in Swiss Francs and licensed by the National Bank (bond issues, placing of notes, and other loans and credits—except export credit) must be converted into foreign currency at the National Bank. Issues by foreign issuers of debt instruments expressed in Swiss Francs and having a maturity of less than 12 months are discouraged. The same applies to foreign bond issues denominated in Swiss Francs in amounts below 10 million SwF.

Furthermore, borrowings of Swiss Francs or foreign currencies abroad by Swiss individuals and companies are subject to prior authorization by the National Bank. In addition, foreign borrowers are requested to convert 100 percent of the loan granted into foreign currency in Switzerland at the prevailing market rate, whereas 10 percent of capital market exports must be converted into dollars at the National Bank at the highest daily interbank selling rate.

6. Interest Rate Limits

According to an article in *The New York Times* of August 23, 1975, p. 27, the Swiss National Bank, in an effort to lift Switzerland out of the recession, announced a cut of one-half percent in the country's key lending rate, thus placing the Swiss bank rate at 4 percent.

7. Exchange Controls

Except for transactions with a few countries there are no foreign exchange restrictions in Switzerland. Foreign banknotes are negotiated freely in Switzerland at rates determined by the interplay of supply and demand.

The great influx into Switzerland of foreign funds, especially "petrodollars," prompted the Government to issue the Decree of October 8, 1971, on the Protection of Currency, by which the Federal Council was authorized to issue, in agreement with the Swiss National Bank, extraordinary measures to prevent an undesired influx of foreign currency. The Decree also provides that agreements between the Swiss National Bank and a majority of the banks may be declared binding by the Federal Council. The National Bank is authorized to carry out the provisions issued on basis of this Decree. Subsequently several other decrees were issued which regulated the influx of foreign currency.

In connection with the banning of interest on deposits received from nonresidents and with the charging of a commission, the National Bank may, in order to prevent evasive practices, restrict the volume of forward sales in Swiss Francs to foreigners. Such practices have particularly involved the temporary conversion into dollars of Swiss Franc accounts maintained by nonresidents with a Swiss bank.

8. Central Bank Credit

One of the principal tasks of the Swiss National Bank is to implement a credit and monetary policy, especially the issuance of loans. The only limitation to its discretion, according to the law, is that the policy must serve the general interests of the country. In connection with this authorization, the law enumerates the transactions in capital exports to which the National Bank may object; the law also influence the raising of the interest rate on the cash obligations of banks with a balance sum of at least 20 million SwF. Whether the Swiss National Bank discriminates against foreign banks doing business in Switzerland in terms of access to its services and the cost of discounting is not known here.

In Switzerland the monetary policy is mainly based on so-called Gentlemen's Agreements between the National Bank and the private banks, and these are not reported in our legal sources.

9. Bank Examination

All banks must draw up annual statements of their financial condition; and those with total assets of no less than 50 million SwF must, in addition, prepare an interim balance sheet. Both of these instruments must be published. The banks must submit their annual balance sheets to the National Bank, which then may request additional information.

Each year the banks must submit their annual statements of their financial condition to a recognized auditing firm independent of the bank.

10. Cartel Restrictions

Cartels or similar organizations which restrain the free market or exclude a third person from free competition are illegal. The Cartel Commission keeps guard over any violation of the law.

The Banking Law provides that the loans granted by a bank to any single customer, as well as the participation in any single company, must be in appropriate relationship to the bank's own resources. Such a credit restriction, however, may lead to a competitive disadvantage for a given bank or group of banks, especially small ones. The larger banks are generally in a more favorable position. Yet, the policy to protect creditors has prevailed over the objection to restrain free competition.

11. Evenhandedness of Application of Regulation

No information on this question could be located in the Library of Congress.

UNITED KINGDOM*

1. Any Deposit Restrictions

(*a*) Limits on deposits of resident nationals:

Resident nationals require Exchange Control permission to acquire foreign exchange. This permission is only given for approved purposes and would not be given merely to enable the resident to hold currency on deposit. Residents may, however, hold currency on temporary deposit with any authorized bank, whether United Kingdom or foreign owned, pending its use for an approved purpose.

Any financial institution which is recognized as a bank may, irrespective of the residential status of its parent, accept sterling deposits from residents in the United Kingdom without specific Exchange Control authority. Any recognized bank, irrespective of its parentage, which wishes to take sterling deposits from non-residents requires a specific Exchange Control consent to do so, but the terms and conditions of such consents (which vary according to the size and status of the bank) are not basically affected by the country of origin of the parent bank.

As far as the acceptance of foreign currency deposits is concerned, this business is largely restricted to what is known as Authorised Banks (banks appointed by H. M. Treasury to act as authorized

*Prepared by (Mrs.) Audrey F. Glover, legal specialist, American-British Law Division, Law Library, Library of Congress, October 1975.

dealers in foreign exchange under the terms of the Exchange Control Act).[1] Certain other banks may undertake a limit amount of foreign currency business during a period prior to their appointment as Authorised Banks. Here again the criteria governing the appointment of banks to Authorised Bank status is not basically governed by the residential status of the parent of that bank. Thus, there are no inherent differences in the treatment accorded to United States owned, other non-resident owned, or domestically owned banks and the guidelines for such appointment are largely based on "banking recognition" status (for details see Schedule).

(*b*) Limits on inflows of funds from abroad:

There are no limits on inflows of currency, although nonresidents require Exchange Control permission to use foreign currency held in the United Kingdom to acquire controlling interests in United Kingdom companies. The Bank of England, in consultation with the Office of Fair Trading, maintains a close watch over changes in the ownership of banks, but this vigilance is exercised primarily to prevent banks falling into undesirable hands. A number of major American banks have substantial investments in major United Kingdom banking companies including First City National City Bank (in Grindlays Bank Ltd.) and Morgan Guaranty Trust Co. (in Morgan Grenfell and Co. Ltd.).

(*c*) Foreign bank access to savings deposit:

Foreign banks have the same access to savings as domestic banks do.

(*d*) Codes of fair competition:

All banks in London have the same freedom in soliciting for business.

2. Reserve Requirements

(*a*) Direct reserve requirements:

Since October, 1971 all banks (including foreign ones) have been required to keep a minimum day-by-day balance of 12–½% of their eligible liabilities in certain reserve assets.

Eligible liabilities are defined to include: all sterling deposits of an original maturity of 2 years or under from United Kingdom residents and overseas residents and all funds due to customers or third parties which are temporarily held in suspense accounts; all sterling deposits from banks in the United Kingdom, less any sterling claims on such banks; all sterling certificates of deposit issued less any holdings of such certificates; the bank's net deposit liability, in sterling to its overseas offices; and, the bank's net liability in currencies other than sterling less 60% of the net value of transit items in the bank's balance sheet.

Reserve assets comprise balances at head office or branches of the Bank of England, British Government and Northern Ireland Government Treasury bills, company tax reserve certificates, money at call with the London money market, British Government stocks and nationalized industries stocks guaranteed by H.M. Government, with 1 year or less to final maturity, local authority bills eligible for discount at the Bank of England and commercial bills eligible for discount at the Bank of England up to a maximum of 2% of total eligible liabilities.

[1] Exchange Control Act, 1947, 10 & 11 Geo. 6, c. 14.

Although the total of the bank's reserve assets must be at least 12½% of its eligible liabilities there are no restrictions on the distribution of funds between the particular categories of assets listed. The London clearing banks, however, have agreed to maintain (day-by-day) 1½% of their eligible liabilities in balances at the head office of the Bank of England, partly to ensure that there are sufficient funds to meet the ordinary day-to-day demands of the clearing system and to facilitate the smooth working of the Bank's operations in the money markets.

(*b*) "Special deposits:"

The Bank of England since October, 1971 will also on occasion tell the banks to place another slice of their assets in a frozen account with the Bank of England, which, however, bears interest at a rate close to the growing Treasury bill rate. These special deposits would be used to head off a possible big upsurge in bank lending at times when the banks had significant "excess reserves." The Bank of England is anxious not to use this weapon too much for fear of slipping back into direct regulation. Moreover, it only freezes a certain proportion of the bank's assets and it would not exert a cumulative pressure on bank reserve assets. It could, however, tend to push up short-term money rates as banks sought to rebuild their excess reserves.

(c) Supplementary special deposits:

The Bank of England has also asked that banks should be prepared to place with the Bank non-interest bearing special deposits in relation to the growth in each institution's interest-bearing resources on the following basis: (i) interest-bearing resources to be defined as the interest-bearing element of each institution's eligible liabilities, (ii) the growth of each institution's interest-bearing resources are to be measured from the average of the amounts outstanding on the 3 make-up days preceding each activation of this scheme, and (iii) up to 50% of the growth in each institution's interest-bearing resources on a 3 months moving average basis, over and above a rate to be specified, to be placed on non-interest bearing deposit with the Bank subject to: (a) no deposit being required to be lodged within the first 6 months of the initial activation of this scheme, (b) non-interest bearing special deposits made to be repayable in full should the growth in the institution's interest bearing resources fall back to the rate specified or in part if the amount of the excess should decline, and (c) the requirement to lodge non-interest bearing special deposits to be capable of variation or suspension at the Bank's discretion.

The scheme came into operation in December, 1973. The Bank subsequently realized that the scheme posed problems for banks that had a very small base of interest-bearing resources and as a result decided that banks should be exempt from the requirements of the scheme until their interest-bearing eligible liabilities average £3 million or more for a period of 3 months.

On February 28, 1975 the Bank of England with, the approval of the Chancellor of the Exchequer, announced the temporary suspension of the operation of the supplementary special deposits scheme. The scheme remains in being and may be reactivated by the Bank of England at any time.

(*d*) Liquidity ratios:

Prior to October, 1971 banks were required to maintain certain minimum ratios of cash and liquid assets to gross deposits, however, with the new reserve assets ratio scheme the system was changed and the liquidity ratios were dispensed with.

3. Priority Investments

Apart from the rules concerning reserve requirements, there are no priority investment requirements.

Until July, 1974, members of the London Discount Market Association agreed to keep 50% of their borrowed funds in specified categories of public sector debt. This created certain difficulties and the public sector lending ratio was replaced by a control which limits aggregate holdings of certain assets by each house to a maximum of 20 times its capital and reserves.

4. Credit Restrictions

The new monetary policy which was introduced in 1971 had as its objective the abandonment of ceilings on bank and finance house lending which would ensure that the allocation of credit would be primarily determined by its cost.

Notwithstanding the abandonment of the quantitative ceilings the authorities reserve the right to continue to provide the banks with such qualitative guidance as might be appropriate and to consider the need to limit the impact on savings banks and building societies of competition by the banks for individual's savings.

The system of reserve assets, special deposits and, when it is in operation, the supplementary deposit scheme have the combined effect of controlling credit. The supplementary deposit scheme was specifically introduced to control credit and it was designed to penalize any growth in the banks interest-bearing deposits above a specified level, by requiring them to place matching non-interest bearing deposits with the Bank of England on a progressively increasing scale. The effect is to limit their ability to lend without forcing up short term interest rates and bank lending rates.

5. Loan Restrictions

The Bank of England sends out voluntary guidance to banks with regard to the loans that they should allow. Banks and finance houses have been asked to ensure that loans are granted to provide finance and facilities for the expansion of exports, savings of imports, and for domestic industrial investment. The Bank made a request in November, 1974 which is still in force, to maintain the existing restraint on lending to persons generally, and for purely financial transactions, and for restraint on lending to property companies.

In addition, so long as hire-purchase terms control remain in force, banks will continue to be asked that personal loans related to the purchase of goods subject to term control should be made on terms no easier than those permitted by the Department of Trade and Industry for hire-purchase contracts.

6. Interest Rate Limits

There are no formal restrictions on interest rates. The clearing banks have abandoned their collective agreements on interest rates. The banks set their own rates and they no longer have to change with

the Bank Rate but they change with their own view of the most profitable rate. The Bank of England does not see any need at the present time to seek to limit the terms offered by banks for savings deposits to protect the position of the savings banks and building societies.

7. Exchange Controls

Except with the permission of the Treasury, no person other than an authorized dealer is permitted in the United Kingdom; and no person resident in the United Kingdom, other than an authorized dealer, is permitted outside the United Kingdom to buy or borrow any gold or foreign currency from, or sell or lend any gold or foreign currency to, any person other than an authorized dealer.[2]

An authorized dealer is one who is authorized by the Treasury to act for the purposes of the act as an authorized dealer.[3] Authorized banks are those which are permitted by the Treasury to deal in foreign exchange.

The exchange control in the United Kingdom is administered by the Bank of England on behalf of the Treasury. The exchange control rules apply to all banks, and United States banks are among those banks which are so authorized.

8. Central Bank Credit

Banks in London do not have regular direct access to the Bank of England for temporary accommodation in sterling; the Bank's lending to the banking system for the purposes of relieving temporary shortages in liquidity is conducted through the London Discount Market to whom the Bank of England makes available lender of last resort facilities.

Direct access to central bank credit is given to banks only rarely and without publicity in exceptional circumstances and at the discretion of the Bank of England which judges each case on its merits. However, the need should not arise with foreign owned banks, since they are required, if they are making significant investments in the United Kingdom banks, to accept a moral commitment to support their United Kingdom subsidiaries and affiliates. On the other hand, the Bank of England requires United Kingdom banks to accept a similar commitment to support their overseas subsidiaries.

9. Bank Examination

There are no statutory regulations requiring the Bank of England to examine banks, although, during the last few years, the Bank of England has intensified its supervisory involvement with other banks. All banks send the Bank of England periodic statements and if the Bank requires any additional information it will call for them. The Bank of England also has periodic discussions with representatives of senior management of banks which it consider to be more conducive to the maintenance of good banking practices than the technique used in other countries of sending in teams of inspectors to examine the books.

10. Cartel Restrictions

There are at present no formal cartel restrictions. When the new credit control policies were introduced the clearing banks abandoned

[2] *Id.* § 1(1).
[3] *Id.* § 42(1).

their cartel arrangements which had provided for uniform deposit rates linked to the Bank rate and also the convention that had governed the relationship of their lending rates with the Bank rate.

11. Evenhandedness of Regulation Overall

With the exception of foreign banks not being permitted to avail themselves of Export Guarantee Department's medium-term credit financing facility, banking regulations policy and practice are administered to foreign banks in exactly the same way as they are to domestic banks.

Venezuela

An outline of the more detailed information needed follows:

1. Any deposit restrictions—re:

(*a*) Limits on deposits of resident nationals—domestic currency vs. foreign currencies, all banks, domestic banks vs. foreign banks.

All banks are allowed to receive deposits in foreign currency. Foreign banks cannot receive deposits from the public sector. Foreign banks cannot issue negotiable certificates of deposits.

(*b*) Limits on inflows of funds from abroad—all banks, foreign as opposed to domestic.

No legal restrictions.

(*c*) Foreign bank access to savings deposits.

Foreign banks cannot receive savings deposits of residents.

(*d*) Codes of fair competition—impact on foreign banks of agreements restricting solicitation of deposits of other banks.

2. Reserve requirements—all banks, foreign vs. domestic.

(*a*) Direct reserve requirements—all banks, foreign vs. domestic—requirement that deposits be kept with central bank or government agencies.

All banks must have a "legal reserve" of no less than 50 percent of their capital and contribute to it with 20 percent of the net profits.

(*b*) "Special deposits".

All banks must keep special deposits (*encajes especiales*) concerning some credits and investments as securities.

(*c*) Secondary reserves.

(*d*) Liquidity ratios.

3. Priority investments—government securities, housing, development banks, long-term loans, etc.—all banks, foreign vs. domestic.

No special priorities for commercial banks. Priorities are set for investment institutions (*sociedades de capitalización*).

4. Credit ceilings—either re domestic inflation or balance of payments.

For all banks, total amount of credits cannot exceed 15 percent of their investments (*colocaciones*).

5. Loan restrictions re classes of borrowers or uses of funds—also structural restrictions (such as prohibitions against underwriting)—all banks, foreign vs. domestic.

National banks cannot have demand or term liabilities that exceed 20 times their capital and reserves. For foreign banks, that restriction amounts to six times their capital and reserves, as a general rule.

6. Interest rate limits—all banks, foreign vs. domestic.

Same system for all banks. Central Bank determines maximum rate of interest.

7. Exchange controls—all banks, foreign vs. domestic.

Yes, all of them.

8. Central bank credit—access and cost—all banks, foreign vs. domestic. If there is nominal access, is there nevertheless discrimination?

According to law, all banks have access.

9. Bank examination—all banks, foreign vs. domestic. What is the interval and nature of examinations?

The *Superintendencia de Bancos* inspects all the banks, takes care of banks, operates according to law. At least one inspection a year.

With regard to foreign banks, specifically the *Superintendencia* must inspect the application of the limitations of stock ownership imposed on foreign banks.

10. Cartel restrictions—against particular operations? Need for cooperation? Big vs. little banks; foreign vs. domestic.

11. Evenhandedness of application of regulation overall.

The Common Regime for the Treatment of Foreign Investment in the countries of the Andean Pact, adhered to by Venezuela, provides that foreign banks presently in operation shall terminate within the next three years. However, the new Venezuelan Banking Law of May 22, 1975 seems to allow to existing foreign banks a restricted but indefinite status.

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